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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(GREENBELT DIVISION)**

ENTERED

MAR 04 2003

**U.S. BANKRUPTCY COURT
DISTRICT OF MARYLAND
GREENBELT**

In re:

Mattress Discounters Corporation and
T.J.B., Inc.,

Debtors.

Chapter 11

Case No. 02-22330 (DK)

(Jointly Administered)

**FINDINGS OF FACT, CONCLUSIONS OF LAW,
AND ORDER UNDER 11 U.S.C. § 1129(a) AND (b) AND FED. R. BANKR. P. 3020
CONFIRMING FIRST AMENDED JOINT PLAN OF REORGANIZATION**

FILED

MAR 03 2003

**U.S. BANKRUPTCY COURT
DISTRICT OF MARYLAND
GREENBELT
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Debtors.

Chapter 11

Case No. 02-22330

(Jointly Administered) **FILED**

MAR 03 2003

U.S. BANKRUPTCY COURT
DISTRICT OF MARYLAND
GREENBELT
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**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER
UNDER 11 U.S.C. § 1129(a) AND (b) AND FED. R. BANKR. P. 3020
CONFIRMING FIRST AMENDED JOINT PLAN OF REORGANIZATION**

WHEREAS, Mattress Discounters Corporation and T.J.B., Inc. (the "Debtors") and the Official Committee of Unsecured Creditors (the "Committee") as "proponents of the plan" within the meaning of section 1129 of title 11, United States Code (the "Bankruptcy Code"), filed (i) the First Amended Joint Chapter 11 Plan of Reorganization of Mattress Discounters Corporation and T.J.B., Inc. Proposed by the Debtors and the Official Committee of Unsecured Creditors, dated January 8, 2003, as modified on the record at the Confirmation Hearing (the "Plan")¹ and the Disclosure Statement to the Plan, dated January 8, 2003 (as transmitted to parties in interest, the "Disclosure Statement"); and

WHEREAS, on January 9, 2003, the Court entered an order (the "Solicitation Order") that, among other things, (a) approved the Disclosure Statement under section 1125 of the Bankruptcy Code and Bankruptcy Rule 3017, (b) established March 3, 2003, as the date for the

¹ Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Plan, a copy of which is annexed hereto as Exhibit "A." Any term used in the Plan or this Confirmation Order that is not defined in the Plan or this Confirmation Order, but that is used in the Bankruptcy Code or the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), shall have the meaning ascribed to that term in the Bankruptcy Code or the Bankruptcy Rules.

commencement of the hearing to consider confirmation of the Plan (the "Confirmation Hearing"), (c) approved the form and method of notice of the Confirmation Hearing, (d) established certain procedures for soliciting and tabulating votes with respect to the Plan, and (e) established February 18, 2003, as the deadline by which all parties entitled to vote to accept or reject the Plan must do so; and

WHEREAS, on February 24, 2003, the Debtors filed the Plan Documents referred to in the Plan; and

WHEREAS, on February 25, 2003, the Debtors filed the Affidavit of Angharad Bowdler Certifying Ballots Accepting or Rejecting the First Amended Joint Plan of Reorganization (the "Ballot Certification"), attesting and certifying the method and results of the ballot tabulation for the Classes of Claims (Classes 2, 3, 5 and 6) entitled to vote to accept or reject the Plan; and

WHEREAS, as set forth in the Response to Objections to Confirmation of the First Amended Joint Plan of Reorganization of Mattress Discounters Corporation and T.J.B., Inc. Proposed by the Debtors and the Official Committee of Unsecured Creditors, dated January 8, 2003 (the "Response"), four (4) objections to confirmation of the Plan were timely filed and served (the "Objections"); and

WHEREAS, all Objections were withdrawn on the terms and conditions described on the record of the Confirmation Hearing (collectively, the "Resolved Objections"), and

WHEREAS, on February 25, 2003, the Debtors filed (i) the Response, (ii) the Memorandum of Law in Support of First Amended Joint Plan of Reorganization (the "Confirmation Memorandum"), (iii) the Affidavit of Rick Frier in Support of Confirmation of the First Amended Joint Plan of Reorganization (the "Frier Affidavit"); the Affidavit of Paul P. Huffard in Support of Confirmation of the First Amended Joint Plan of Reorganization (the "Huffard Affidavit"); and the Ballot Certification, and

WHEREAS, on February 25, 2003, the Committee filed: (i) the Affidavit of Derron S. Slonecker in Support of Confirmation of First Amended Joint Plan of Reorganization (the "Slonecker Affidavit"), (ii) the Declaration of Richard H. Engman in Support of Confirmation of First Amended Joint Plan of Reorganization (the "Engman Declaration"), and (iii) the Affidavit of Kenneth Walker (the "Sealy Affidavit"); and

WHEREAS, the Confirmation Hearing was held on [March 3, 2003].

NOW, THEREFORE, based upon the Court's review of the Ballot Certification, the Frier Affidavit, the Huffard Affidavit, the Slonecker Affidavit, the Engman Declaration, the Sealy Affidavit, the Response, the Confirmation Memorandum, and upon (a) all the evidence proffered or adduced at, memoranda and Objections filed in connection with, and arguments of counsel made at the Confirmation Hearing, and (b) the entire record of these Chapter 11 Cases; and after due deliberation thereon and good cause appearing therefor:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

IT IS HEREBY FOUND AND DETERMINED THAT:²

1. Exclusive Jurisdiction; Venue; Core Proceeding (28 U.S.C. §§ 157(b)(2), 1334(a)). This Court has jurisdiction over these Chapter 11 Cases pursuant to sections 157 and 1334 of title 28 of the United States Code. Venue is proper pursuant to sections 1408 and 1409 of title 28 of the United States Code. Confirmation of the Plan is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(L), and this Court has exclusive jurisdiction to determine whether the Plan complies with the applicable provisions of the Bankruptcy Code and Bankruptcy Rules and should be confirmed.

2. Judicial Notice. This Court takes judicial notice of the docket of the Chapter 11 Cases maintained by the Clerk of the Court and/or its duly-appointed agent,

² Pursuant to Bankruptcy Rule 7052, findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate.

including, without limitation, all pleadings and other documents filed, all orders entered, and evidence and argument made, proffered, or adduced at the hearings held before the Court during the pendency of these Chapter 11 Cases, including, but not limited to, the hearings to consider the adequacy of the Disclosure Statement and to approve the Global Settlement Agreement.

3. Transmittal and Mailing of Materials; Notice. In accordance with the Solicitation Order, the Debtors caused Solicitation Packages, consisting of the Disclosure Statement, the Plan (as an attachment to the Disclosure Statement), the appropriate Ballot and voting instructions, the Confirmation Hearing Notice (as defined in the Solicitation Order), a copy of the Solicitation Order, and other solicitation materials approved by the Court, to be timely mailed to (i) all persons or entities that timely filed proofs of claim on or before January 6, 2003 (the "Record Date") and all persons or entities that timely filed proofs of claim on or before January 28, 2003, (the "Bar Date"); (ii) all persons or entities listed in the Schedules as modified as of the Bar Date; (iii) other known holders of liquidated, noncontingent and undisputed Claims against the Debtors, if any, as of the Bar Date; (iv) any parties in interest that filed a notice in accordance with Bankruptcy Rule 2002 in the Debtors' Chapter 11 cases on or before the Record Date; (v) counsel to the Committee; (vi) the United States Trustee; (vii) the Securities and Exchange Commission; (viii) all parties listed on Debtors' schedules of executory contracts and unexpired leases; all parties on the Debtors' creditor matrix; (ix) the Internal Revenue Service; (x) the taxing authority of each state in which the Debtors have conducted business; and (xi) the putative members of the class action lawsuit styled Tiona Michael, et al. v. Mattress Discounters who were not sent the notice of the January 28, 2003 bar date. The transmittal and service of all such foregoing documents were adequate and sufficient and no other or further notice is or shall be required.

4. Voting. Votes to accept and reject the Plan have been solicited and tabulated fairly, in good faith, and in a manner consistent with the Bankruptcy Code, the Bankruptcy Rules, the Solicitation Order, all other orders of this Court. As evidenced by the Ballot Certification, which certifies both the method and results of the voting by impaired Classes of Claims with respect to the Plan, Class 2, Class 3, Class 5 and Class 6 are each impaired and each have voted to accept the Plan pursuant to 11 U.S.C. §§ 1124 and 1126.

5. Plan Compliance with Bankruptcy Code (11 U.S.C. § 1129(a)(1)). The Plan complies with the applicable provisions of the Bankruptcy Code, as required by section 1129(a)(1) of the Bankruptcy Code, including, without limitation, sections 1122 and 1123 of the Bankruptcy Code.

(a) Proper Classification (11 U.S.C. §§ 1122, 1123(a)(1)). The Plan designates eight (8) Classes of Claims and Interests. The Claims and Interests placed in each Class are substantially similar to other Claims and Interests, as the case may be, in each such Class. Valid business, factual, and legal reasons exist for separately classifying the various Classes of Claims and Interests created under the Plan, and such Classes do not unfairly discriminate between holders of Claims and Interests. The Plan satisfies sections 1122(a) and 1123(a)(1) of the Bankruptcy Code.

(b) Specified Unimpaired Classes (11 U.S.C. § 1123(a)(2)). Section 2.3 of the Plan specifies that Class 1 Priority Claims, Class 4 Other Secured Claims and Class 7B Equity Interests in TJB are unimpaired under the Plan, thereby satisfying section 1123(a)(2) of the Bankruptcy Code.

(c) Specified Treatment of Impaired Classes (11 U.S.C. § 1123(a)(3)). Sections 2.3 of the Plan designates Class 2 Lender Secured Claims, Class 3 Tranche B Secured Claims, Class 5 Unsecured Claims, Class 6 Convenience Claims and Class 7A MD Equity

Interests as impaired and Section 2.6 of the Plan specifies the treatment of Claims and Interests in those Classes, thereby satisfying section 1123(a)(3) of the Bankruptcy Code.

(d) No Discrimination (11 U.S.C. § 1123(a)(4)). The Plan provides for the same treatment by the Debtors for each Claim or Interest in each respective Class unless the holder of a particular Claim or Interest has agreed to a less favorable treatment of such Claim or Interest, thereby satisfying section 1123(a)(4) of the Bankruptcy Code.

(e) Implementation of Plan (11 U.S.C. § 1123(a)(5)). Article VII and the other provisions of the Plan provide adequate and proper means for the Plan's implementation, including, without limitation, (a) the issuance of New MD Common Stock, (b) the substantive consolidation of MD and TJB, (c) the revesting of all of the Debtors' assets, (d) the adoption by the Reorganized Debtors of New Charters and New Bylaws and (e) the transfer of some or all or substantially all of one of the Debtors' assets to the other or to one or more new entities (whether or not related), thereby satisfying section 1123(a)(5) of the Bankruptcy Code.

(f) Non-Voting Equity Securities (11 U.S.C. § 1123(a)(6)). Section 7.3 of the Plan provides that the New Charters and New Bylaws of the Reorganized Debtors shall prohibit the issuance of nonvoting equity securities to the extent required by 1123(a) of the Bankruptcy Code. Thus, the requirements of section 1123(a)(6) of the Bankruptcy Code are satisfied.

(g) Designation of Officers and Directors (11 U.S.C. § 1123(a)(7)). Section 7.5 of the Plan contains provisions with respect to the manner of selection of officers and directors of the Reorganized Debtors that are consistent with the interests of creditors, equity security holders, and public policy in accordance with section 1123(a)(7). The initial directors of the Reorganized Debtors shall be Steve Newton, Andrew Giordano, Michael Appel, Dale Carlson and Michael McCreary. The Chief Executive Officer of the Reorganized Debtors shall be Steve Newton.

(h) Bankruptcy Rule 3016(a). The Plan is dated and identifies the entities submitting it as proponents and satisfies Bankruptcy Rule 3016(a).

(i) Bankruptcy Rule 3018. The solicitation of votes to accept or reject the Plan was conducted in accordance with the Solicitation Order and otherwise satisfies Bankruptcy Rule 3018. The Plan was transmitted to all Creditors entitled to vote on the Plan. Sufficient time was provided to such Creditors to accept or reject the Plan, and the solicitation materials and procedures comply with the Solicitation Order and 11 U.S.C. § 1126, thereby satisfying the requirements of Bankruptcy Rule 3018.

6. Debtors' Compliance with Bankruptcy Code (11 U.S.C. § 1129(a)(2)).

The Proponents have complied with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(2) of the Bankruptcy Code and the Debtors and the Committee are proper proponents of the Plan under Section 1121(a) of the Bankruptcy Code. The Debtors are proper debtors under section 109 of the Bankruptcy Code. Except as otherwise provided or permitted by orders of the Court, the Proponents have complied with applicable provisions of the Bankruptcy Code, Bankruptcy Rules, Local Bankruptcy Rules of the United States Bankruptcy Court for the District of Maryland, and the Solicitation Order, including, without limitation, sections 1122, 1123, 1124, 1125 and 1126 of the Bankruptcy Code and Bankruptcy Rules 2002, 3016, 3017, 3018, and 3019. The solicitation of acceptances or rejections of the Plan was (i) in compliance with all applicable non-bankruptcy laws, rules, and regulations governing the adequacy of disclosure in connection with such solicitation, and (ii) solicited after disclosure to holders of Claims or Interests of adequate information as defined in section 1125(a) of the Bankruptcy Code. The Debtors, their directors, officers, employees, agents, affiliates, the Committee, its members, and their respective Professional Persons (acting in such capacity) have acted in "good faith," within the meaning of section 1125(e) of the Bankruptcy Code.

7. Plan Proposed in Good Faith (11 U.S.C. § 1129(a)(3)). The Debtors have proposed the Plan in good faith and not by any means forbidden by law, thereby satisfying section 1129(a)(3) of the Bankruptcy Code. In determining that the Plan has been proposed in good faith, the Court has examined the Plan itself and whether such a plan will fairly achieve a result consistent with the objectives and purposes of the Bankruptcy Code. The Plan itself and the process leading to its formation provide independent evidence of the Debtors' good faith. The Court finds that there is a reasonable likelihood that the Plan will achieve a result consistent with the Bankruptcy Code. The Plan is designed to allow the Reorganized Debtors to reorganize by providing them with a capital structure that will allow them to satisfy their obligations and maintain sufficient liquidity and capital resources to conduct their business. Therefore, the Plan has not been proposed by any means forbidden by law. Accordingly, the Plan satisfies the requirements of 1129(a)(3).

8. Payments for Services or Costs and Expenses (11 U.S.C. § 1129 (a)(4)). Any payment made or to be made by any of the Debtors for services or for costs and expenses in or in connection with these Chapter 11 Cases, or in connection with the Plan and incident to these Chapter 11 Cases, has been approved by, or is subject to the approval of, the Court as reasonable, thereby satisfying section 1129(a)(4) of the Bankruptcy Code.

9. Directors, Officers, and Insiders (11 U.S.C. § 1129(a)(5)). The Debtors have complied with section 1129(a)(5) of the Bankruptcy Code. The identity and affiliations of the persons proposed to serve as initial officers and directors of the Reorganized Debtors after confirmation of the Plan and the compensation to be paid to such persons have been fully disclosed in the Frier Affidavit (the "D&O List"). Based on the totality of facts and circumstances in these Chapter 11 Cases, the Court finds and concludes the appointment to, or continuance in, such offices of officers and directors is consistent with the interests of holders of

Claims against and Interests in the Debtors and with public policy. The identity of any insider that will be employed or retained by the Reorganized Debtors and the nature of such insider's compensation have also been fully disclosed on the D&O List.

10. No Rate Changes (11 U.S.C. § 1129(a)(6)). Section 1129(a)(6) of the Bankruptcy Code is inapplicable to confirmation of the Plan because there are no rate changes provided for in the Plan for which a governmental regulatory commission will have jurisdiction over the Debtors after confirmation of the Plan.

11. Best Interests of Creditors (11 U.S.C. § 1129(a)(7)). The Plan satisfies section 1129(a)(7) of the Bankruptcy Code. The liquidation analysis provided in the Disclosure Statement and other evidence proffered and/or adduced at the Confirmation Hearing (a) are persuasive and credible, (b) have not been controverted by other evidence, and (c) establish that each holder of an impaired Claim or Interest either has accepted the Plan or will receive or retain under the Plan, on account of such Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount that such holder would so receive or retain if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code on such date.

12. Acceptance by Certain Classes (11 U.S.C. § 1129(a)(8)). Class 1 Priority Claims, Class 4 Other Secured Claims and Class 7B Equity Interests in TJB are unimpaired Classes of Claims that are conclusively presumed to have accepted the Plan under section 1126(f) of the Bankruptcy Code. Class 2 Lender Secured Claims, Class 3 Tranche B Secured Claims, Class 5 Unsecured Claims and Class 6 Convenience Claims have voted to accept the Plan in accordance with sections 1126(c) and (d) of the Bankruptcy Code. Class 7A Equity Interests in MD are not entitled to receive or retain any property under the Plan and, therefore, are deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code. Although section 1129(a)(8) has not been satisfied with respect to the deemed rejecting Classes

identified above, the Plan is confirmable because the Plan satisfies section 1129(b) of the Bankruptcy Code with respect to the deemed rejecting Class 7A Equity Interests in MD identified above. As set forth in the Ballot Certification, the holders of Claims in Classes 2, 3, 5 and 6 that voted with respect to the Plan have voted to accept the Plan as follows:

Class	Total Ballots Received			
	Accept		Reject	
	Amount	Number	Amount	Number
Class 2 (Lender Secured Claims)	\$15,824,983.00 100.00%	3 100.00%	0 0.00%	0 0.00%
Class 3 (Tranche B Secured Claims)	\$12,500,000.00 100.00%	1 100.00%	0 0.00%	0 0.00%
Class 5 (Unsecured Claims)	\$118,595,423.36 92.27%	86 87.76%	\$9,937,439.34 7.73%	12 12.24%
Class 6 (Convenience Claims)	\$278,507.56 88.11%	116 87.22%	\$37,585.41 11.89%	17 12.78%

13. Treatment of Administrative Claims, Priority Claims, and Tax Claims (11

U.S.C. 1129(a)(9)). The treatment of Administrative Claims, Priority Claims and Tax Claims pursuant to Section 2.6 and Article III of the Plan satisfies the requirements of sections 1129(a)(9)(A) and (B) of the Bankruptcy Code. The interest rate that the Debtors are required to pay on account of Tax Claims shall be 6% per annum. Unless the holders of such claims and the Debtors otherwise agree, as provided in the Plan, the Debtors shall pay such Tax Claims in cash in full or in quarterly installments of principal, together with interest accruing thereon, with the first such payment due on the first April 30, June 30, September 30 or December 31 following

the Effective Date until the sixth anniversary of the date of assessment of such Tax Claim.

Therefore, the Plan satisfies the requirements of section 1129(a)(9) of the Bankruptcy Code.

14. Acceptance By Impaired Classes (11 U.S.C. § 1129(a)(10)). At least one Class of Claims that is impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider, thus satisfying the requirements of section 1129(a)(10) of the Bankruptcy Code.

15. Feasibility (11 U.S.C. § 1129(a)(11)). Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization of the Debtors. The evidence proffered in the Frier Affidavit and Huffard Affidavit (a) is persuasive and credible, (b) has not been controverted by other evidence, and (c) establishes that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Reorganized Debtors. Therefore, the Plan satisfies the requirements of section 1129(a)(11) of the Bankruptcy Code.

16. Payment of Fees (11 U.S.C. § 1129(a)(12)). All fees payable under section 1930 of title 28, United States Code, as determined by the Court, have been paid or will be paid pursuant to Section 11.1 of the Plan. Thus, the Plan satisfies the requirements of section 1129(a)(12) of the Bankruptcy Code.

17. Continuation of Retiree Benefits (11 U.S.C. § 1129(a)(13)). Section 1129(a)(13) of the Bankruptcy Code is inapplicable to confirmation of the Plan because the Debtors have no retiree benefit obligations.

18. Fair and Equitable; No Unfair Discrimination (11 U.S.C. § 1129(b)). Class 7A Equity Interests in MD is deemed to reject the Plan. Based upon the evidence proffered, adduced, or presented in the Frier Affidavit and by the Debtors at the Confirmation Hearing, the Plan does not discriminate unfairly and is fair and equitable with respect to Class

7A, as required by section 1129(b)(1) of the Bankruptcy Code. No holder of an Interest junior to Class 7A will receive or retain any property on account of such junior Interest. Thus, the Plan satisfies the requirement of Sections 1129 (b)(2)(B) and (C) and therefore may be confirmed, notwithstanding the Debtors' failure to satisfy section 1129(a)(8) of the Bankruptcy Code. Upon confirmation and the occurrence of the Effective Date, the Plan shall be binding upon the members of Class 7A.

19. No Other Plan (11 U.S.C. § 1129(c)). No other plan of reorganization has been filed with respect to the Chapter 11 Cases. Accordingly, the requirements of section 1129(c) of the Bankruptcy Code have been satisfied.

20. Principal Purpose of the Plan (11 U.S.C. § 1129(d)). The principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of Section 5 of the Securities Act of 1933. In addition, no party-in-interest that is a governmental unit has requested that the Plan not be confirmed on such grounds. The Plan, therefore, satisfies the requirements of section 1129(d).

21. Good Faith Solicitation (11 U.S.C. § 1125(e)). Based on the record before the Court in these Chapter 11 Cases, the Debtors and their directors, officers, employees, shareholders, members, agents, advisors, accountants, investment bankers, consultants, attorneys, and other representatives, the Committee, its members, advisers and attorneys and the Released Persons have acted in "good faith" within the meaning of section 1125(e) of the Bankruptcy Code and in compliance with the applicable provisions of the Bankruptcy Code and Bankruptcy Rules in connection with all their respective activities relating to the solicitation of acceptances to the Plan and their participation in the activities described in section 1125 of the Bankruptcy Code, and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code and the exculpation provisions set forth in Section 11.4 of the Plan.

22. Assumption and Rejection. Article V of the Plan governing the assumption and rejection of executory contracts and unexpired leases satisfies the requirements of section 365(b) of the Bankruptcy Code and all applicable Bankruptcy Rules. The Debtors' decisions regarding the assumption and rejection of executory contracts and unexpired leases are based on and are within the sound business judgment of the Debtors, are necessary to the implementation of the Plan, and are in the best interests of the Debtors, their estates, holders of Claims, and other parties in interest in these Chapter 11 Cases. The Debtors have provided adequate notice to all parties to executory contracts and unexpired leases to be assumed or rejected pursuant to the Plan of the Debtors' proposed rejection or assumption of such contracts and the deadline for filing objections to such treatment. The Debtors have also provided adequate notice of the proposed Cure Claims to all parties listed on such schedule. No other or further notice is or shall be required. Pursuant to Section 5.2 of the Plan, in the event of a dispute regarding: (1) the existence of any default or the amount of any cure payments, (2) the ability of Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of Section 365 of the Bankruptcy Code) under the executory contract or unexpired lease to be assumed, or (3) any other matter pertaining to assumption of such contracts or leases, any cure payments required by Section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order by the Court resolving the dispute and otherwise approving the assumption. In the event the Court determines that a cure payment is greater than the amount Debtors set forth on Exhibit A to the Plan, the Debtors shall retain all rights to reject such contract or unexpired lease.

23. Substantive Consolidation. The evidence set forth in the Frier Affidavit and proffered and adduced at the Confirmation Hearing and all other evidence on the record before the Court in these Chapter 11 Cases establishes that MD and TJB have not maintained

separate books and records. As a result, the Debtors cannot determine from their books and records in which corporation a trade debt obligation has been incurred nor which Debtor company owns which assets, except with respect to certain leases and contracts. The evidence before this Court establishes that (a) there is a substantial identity between MD and TJB; (b) there is an extensive interrelationship, interdependence, and entanglement between MD and TJB that make it financially prohibitive to disentangle their affairs; (c) the time and expense necessary even to attempt to unscramble the affairs of MD and TJB is unwarranted; (d) consolidation will foster a net benefit among all holders of Unsecured Claims against MD and TJB; and (e) the substantive consolidation provided for in the Plan ensures the equitable treatment of all Creditors of MD and TJB. Such evidence is persuasive and credible and has not been controverted by any other evidence. No credible evidence has been presented to demonstrate that any Creditor of MD or TJB relied on the separate credit of one of the entities to be consolidated or that any such Creditor will be prejudiced by the substantive consolidation.

24. Releases. The releases and injunctions set forth in Article IV and Sections 7.9 and 11.17 of the Plan are hereby approved pursuant to Sections 105(a), 1123(b)(3)(A) and (b)(6) of the Bankruptcy Code and Bankruptcy Rule 9019, subject to the limitations set forth in the following sentence. Notwithstanding any provision in the Plan or this Confirmation Order to the contrary, the release and injunctive provisions of the Plan and this Confirmation Order, including those provisions set forth in Sections 4.1-4.4, 4.6 and 11.17 of the Plan, shall not release any claims or enjoin the prosecution of any claims against a non-Debtor party which (i) are not owned by Debtors or the estate and (ii) are owned individually by a creditor or equity interest holder of the Debtors who did not vote in favor of the Plan; provided however, that nothing contained in this sentence shall apply to Section 4.5 of the Plan. The settlement or compromise of claims of the Debtors and their Estates against the Released Persons, the Lender

Releases and the directors, officers and employees referenced in Section 7.9 of the Plan is fair, prudent, reasonable and in the best interest of the Estates as a whole based upon the probability of the Debtor's success if the claims being compromised were litigated, the difficulties in collecting, the complexity, time and expense of the litigation and the interests of the Debtor's creditors as evidenced by the Frier Affidavit, Engman Declaration and Slonecker Affidavit. The benefits to be received by the Debtors, their estates and their creditors as a result of the compromise, settlement and release of the claims constitute fair and reasonable value for the resolution of the claims. Among others, these benefits include (i) the avoidance of costly and time consuming litigation regarding the claims; (ii) the ability to implement and consummate the Debtors' financial restructuring contemplated by the Plan in an efficient and timely manner so as to avoid any further damage or injury to the Debtors' businesses; (iii) the contributions to the foregoing restructuring made by MD Lender, Inc. and Sealy on behalf of all of the Released Persons and the directors, officers and employees referenced in Section 7.9 of the Plan including, without limitation, the debtor-in-possession lines of credit, both cash and trade, the agreement to roll-over the debtor-in-possession lines of credit into the Exit DIP Facility and the Exit Sealy Facility; and (iv) the waiver by Mattress Holding Corporation of any claim to assert that the equity interests in MD held by it are entitled to receive consideration under the Plan. The compromise, settlement and release provisions set forth in Article IV and Sections 7.9 and 11.17 of the Plan are an integral part of the Plan, are consideration for contributions essential to the success of the Plan and are necessary for the reorganization of the Debtors. The settlement or compromise of these claims falls within the range of reasonableness of litigation possibilities. In light of the consideration provided, the settlement and compromise of these claims is fair and justified. The release of claims against the Released Persons of creditors voting in favor of the Plan is hereby approved as the Court finds that the Plan and Disclosure Statement sufficiently

described the releases, the creditors had a fair opportunity to incorporate the cost of the releases into their decision to vote in favor of the Plan, and, therefore, the creditors who voted in favor of the Plan affirmatively assented to the releases. The releases of claims of all current and former creditors and equity interest holders of the Debtors who vote in favor of the Plan and the Channeling Injunction, as limited by this Confirmation Order, is hereby approved. The evidence set forth in the Frier Affidavit, Huffard Affidavit, Slonecker Affidavit, Engman Declaration, Walker Affidavit and Ballot Certification and all other evidence on the record before the Court in these cases establishes the facts which justify the releases and Channeling Injunction contained in Article IV and Sections 7.9 and 11.1 of the Plan, as limited by this Confirmation Order.

25. Satisfaction of Confirmation Requirements. The Plan satisfies the requirements for confirmation set forth in section 1129 of the Bankruptcy Code.

26. Retention of Jurisdiction. The Court may properly retain jurisdiction over the matters set forth in Article X of the Plan and section 1142 of the Bankruptcy Code.

27. Satisfaction of Conditions to Confirmation. Each of the conditions precedent to the entry of this confirmation order, as set forth in Section 6.1 of the Plan, has been satisfied or waived pursuant to the terms of the Plan.

27a. Executory Contracts and Unexpired Leases. Each Rejected Contract and Lease, as defined in paragraph 34 below, is burdensome and rejection is in the best interest of the Debtors, their Estates, and all parties in interest in these Chapter 11 Cases and is otherwise appropriate under Section 365 of the Bankruptcy Code.

27b. Modifications to Plan. The modifications to the Plan made on the record are not material and do not require resolicitation of votes of creditors.

DECREES

NOW, THEREFORE, IT IS HEREBY ORDERED; ADJUDGED, AND DECREED
THAT:

28. Burden of Proof. The Debtors have the burden of proving the elements of sections 1129(a) and (b) of the Bankruptcy Code by a preponderance of evidence and they have met that burden as further found and determined herein.

29. Confirmation. The Plan is approved and confirmed under section 1129 of the Bankruptcy Code. The terms of the Plan are incorporated by reference into and are an integral part of this Confirmation Order.

30. Objections. All Objections that have not been withdrawn with prejudice, waived, or settled, and all reservations of rights pertaining to confirmation of the Plan included therein, are overruled on the merits.

31. Plan Classification Controlling. The classifications of Claims and Interests for purposes of the distributions to be made under the Plan shall be governed solely by the terms of the Plan. The classifications set forth on the Ballots tendered to or returned by the Creditors in connection with voting on the Plan (a) were set forth on the Ballots solely for purposes of voting to accept or reject the Plan, (b) do not necessarily represent, and in no event shall be deemed to modify or otherwise affect, the actual classification of such Claims and Interests under the Plan for voting or distribution purposes, and (c) shall not be binding on the Debtors or the Reorganized Debtors.

32. Binding Effect. In accordance with section 1141 of the Bankruptcy Code and immediately upon entry of the Confirmation Order, the Plan and its provisions shall be binding upon the Debtors, the Reorganized Debtors, the Exchange Agent, any entity acquiring or receiving property or a distribution under the Plan, and any holder of a Claim against or Interest in the Debtors, including all governmental entities, any party to an executory contract or

unexpired lease of a Debtor and each of the foregoing's respective heirs, successors, assigns, trustees, executors, administrators, affiliates, officers, directors, agents, representatives, attorneys, beneficiaries, or guardians, if any, whether or not the Claim or Interest of such holder is impaired under the Plan and whether or not such holder or entity has accepted the Plan.

33. Vesting of Assets (11 U.S.C. §1141 (b) and (c)). Pursuant to Section 7.1 of the Plan, except as otherwise provided in the Plan or this Confirmation Order, each Debtor will, as a Reorganized Debtor, continue to exist after the Effective Date as a separate corporate entity, with all the powers of a corporation, under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, dissolution, or otherwise) under applicable state law. Pursuant to Section 7.6 of the Plan, except as otherwise provided in the Plan or this Confirmation Order, upon the Effective Date, all property of the Debtors' estates shall vest in the Reorganized Debtors free and clear of all Claims, liens, charges, or other encumbrances and Interests, and all such Claims, liens, charges, or other encumbrances and Interests shall be extinguished. From and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire, and dispose of property, and compromise or settle any Claims and Interests without supervision or approval by the Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or this Confirmation Order.

34. Assumption or Rejection of Executory Contracts and Unexpired Leases (11 U.S.C. § 1123(b)(2)). The assumption and rejection of executory contracts and unexpired leases pursuant to Article V of the Plan and the Motion of Debtors for Entry of an Order Pursuant to Section 365 of the Bankruptcy Code Authorizing the Assumption of Certain Executory Contracts and Unexpired Leases filed on February 10, 2003 (the "Motion to Assume") shall be, and hereby are approved. Pursuant to Article V of the Plan, as of the Effective Date, all

executory contracts and unexpired leases as to which any of the Debtors are parties will be deemed rejected in accordance with the requirements of sections 365 and 1123 of the Bankruptcy Code and Article V of the Plan, except for any executory contract or unexpired lease that (i) is listed on Exhibit A to the Plan, (ii) has been approved by the Court prior to the Confirmation Date for assumption or assumption or assignment by the Debtors, (iii) is the subject of a pending motion to assume on the Confirmation Date, or (iv) is the Sealy Prepetition Supply Agreement (the "Rejected Contracts and Leases"). A hearing on the Motion to Assume was held on March 3, 2003, the date of the Confirmation Hearing. The assumption of the executory contracts and unexpired leases listed on Exhibit A to the Plan and Attachment A to the Motion to Assume is hereby approved pursuant to Section 365 of the Bankruptcy Code as of the Effective Date.

Except as otherwise determined by this Court in response to a timely filed objection, the amount of compensation and cure payments to be provided by the Reorganized Debtors in accordance with section 365(b)(1) of the Bankruptcy Code shall be the Cure Amounts set forth on Exhibit A to the Plan or Attachment A to the Motion to Assume. Pending such determination and absent further order of the Court, the non-Debtor parties to any such executory contracts or unexpired leases are enjoined from taking any action to terminate such contracts or leases. No other cure or compensation payments or assurances of adequate assurance shall be required. The Court retains jurisdiction to authorize the assumption of any executory contracts and unexpired leases that are the subject of a pending motion to assume on the Confirmation Date. If a Debtor and the non-Debtor party to a lease or contract are unable to agree on the cure amount for such lease or contract, then such Debtor shall have the option to reject such lease or contract or seek a judicial determination of the cure amount (after which, if the cure amount is unacceptable to such Debtor, it may reject the lease or contract).

35. Bar Date for Rejection Damage Claims. Pursuant to Section 5.5 of the Plan, if the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to Section 5.4 of the Plan results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtors, the Reorganized Debtors, or their respective properties or interests in property as agents, successors, or assigns, unless a proof of claim is filed with the Court and served upon counsel for the Debtors on or before the later of (a) the date that is thirty (30) days after entry of this Confirmation Order, and (b) as to any executory contract or unexpired lease that is rejected after the entry of this Confirmation Order, the date that is thirty (30) days after the entry of an order (other than this Confirmation Order) of the Court approving such rejection. Unless otherwise ordered by the Bankruptcy Court, all Allowed Rejection Damage Claims shall be treated as either Class 5 (Unsecured Claims) Claims or Class 6 (Convenience Class) Claims, as applicable.

36. General Authorizations. Each of the Debtors and/or Reorganized Debtors is authorized to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan and any notes or securities issued pursuant to the Plan. The Debtors and the Reorganized Debtors and their respective directors, officers, members, agents, and attorneys, are authorized and empowered to issue, execute, deliver, file, or record any agreement, document, or security, including, without limitation, any documents contained in the Plan, including without limitation, the Plan Documents and the Reinstated Credit Documents, as modified, amended, and supplemented (whether prior to or following entry of the Confirmation Order) and any release, amendment, or restatement of any bylaws, certificates of incorporation, or other organization documents of the

Debtors, whether or not specifically referred to in the Plan, without further order of the Court. Any or all such documents shall be accepted by each of the respective state filing offices and recorded in accordance with applicable state law and shall become effective in accordance with their terms and the provisions of state law. In addition, they shall also be authorized and empowered, without further order of this Court, to take any action necessary or appropriate to implement, effectuate, and consummate the Plan in accordance with its terms, or take any or all corporate actions authorized to be taken pursuant to the Plan.

37. Corporate Action. The Reorganized Debtors shall amend and restate their charters, in the form of the New Charters and shall amend and restate their bylaws in the form of the New Bylaws. The New Charters of each of the Reorganized Debtors shall prohibit the issuance of nonvoting equity securities, subject to further amendment of such New Charters as permitted therein or by applicable law. The New Bylaws shall be deemed adopted by the respective board of directors of the Reorganized Debtors as of the Effective Date.

38. Annual Meetings of Shareholders. For purposes of section 211 of the Delaware General Corporation Law and the Maryland General Corporation Law, annual meetings of shareholders of the Reorganized Debtors shall be deemed to have taken place on the Effective Date.

39. Taxable Year. Each of the Debtors and/or Reorganized Debtors are hereby authorized, but not directed, in their sole and absolute discretion, to change the end of their taxable year to the last day of the month in which the Effective Date occurs or such other date as they determine in their sole and absolute discretion.

40. Cancellation of Instruments and Securities. Subject to the provisions of Section 7.8 of the Plan, on the Effective Date, except to the extent provided otherwise in the Plan, all promissory notes, share certificates, warrants, membership interests, instruments,

indentures (including, without limitation, the Indenture), or agreements evidencing, giving rise to, or governing any Claim or Equity Interest in the Debtors is hereby canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or rule, and the obligations of the Debtors thereunder is discharged, except that the provisions of the Indenture relating to distributions, the Indenture Trustee's right to payment other than from the Debtors, lien or property to be distributed to holders of MD Notes and the Indenture Trustee's right to indemnity, if any, against holders of MD Notes, but not the Debtors, is not affected. If for any reason the Indenture Trustee does not serve as the disbursing agent with respect to distributions to holders of MD Notes, then such liens provided to the Indenture Trustee under the Indenture shall constitute a lien on property in the possession of any such agent or custodian, all as provided in the Indenture, provided however, that upon payment in full by the Debtors of the fees and expenses, to the extent provided for in Section 8.8 of the Plan, distributions to holders of MD Notes will not be reduced on account of any Indenture Trustee's fees and expenses. All parties thereto are ordered to execute and deliver to the Debtors all termination statements and releases of lien necessary to terminate of record all such interests.

41. Issuance of New Securities. Pursuant to Section 8.2 of the Plan, based upon the record of the Chapter 11 Cases, including any Plan Documents, the issuance of all New MD Common Stock, and all instruments, certificates and other documents related thereto, required to be issued under the Plan is hereby authorized without further act or action under applicable law, regulation, order, or rule and the New MD Common Stock issued under the Plan will, upon issuance be fully paid and nonassessable.

42. Securities Laws Exemption. The offering, issuance, and distribution of the New MD Common Stock under the Plan is exempt from the provisions of Section 5 of the Securities Act of 1933, as amended, and any state or local law requiring registration for the offer,

issuance, distribution, or sale of a security by reason of section 1145(a) of the Bankruptcy Code and will be freely tradable by the recipients thereof subject only to the provisions of section 1145(b)(1) of the Bankruptcy Code relating to the definition of an underwriter in Section 2(11) of the Securities Act of 1933, as amended, and compliance with any applicable rules and regulations of the Securities Exchange Commission.

43. Substantive Consolidation and Corporate Organization. Subject to the occurrence of the Effective Date, MD and TJB shall be deemed consolidated for purposes of voting on, confirmation of, and distributions under the Plan; provided, however, MD and TJB shall retain their current legal forms, and the corporate structures of MD and TJB shall be the same after the Effective Date as before the Effective Date, in each case, except as otherwise provided or permitted in the Plan or in this Confirmation Order. On and after the Effective Date, the Debtors may, without further approval of the Court, cause either of the Debtors to be merged into the other, or to one or more new entities (whether or not related) or transfer some or all or substantially all of their assets to the other or to one or more new entities (whether or not related) in each case subject to any limitations provided for in the Plan Documents. On and after the Effective Date, (i) no distributions shall be made under the Plan on account of Intercompany Claims, (ii) all prepetition guaranties of TJB of the obligations of MD or of MD obligations of TJB is eliminated so that any Claim against MD or TJB and any prepetition guarantee thereof executed by MD or TJB and any joint or several liability of MD or TJB is deemed to be one obligation of MD and TJB, and (iii) each and every Claim filed or to be filed against MD and TJB is deemed filed against MD and TJB, and is deemed one Claim against and obligation of MD and TJB. MD is authorized on the Effective Date and prior to the discharge of the Debtors pursuant to Section 1141 of the Bankruptcy Code and this Confirmation Order to contribute all of its right, title and interest in and to all of its assets (other than the shares of TJB and the

Pledged Accounts, as defined in paragraph 55(c) below), its operating assets to TJB and any and all assignments and/or transfers of contracts, leases, or other agreements that are made in connection with consolidation are hereby authorized and TJB shall assume and agree to be liable for all of MD's liabilities that remain after the discharge of all Claims and Interests against the Debtors as set forth in the Plan and this Confirmation Order.

44. Plan Documents. The Plan Documents and Reinstated Credit Documents and any amendments, modifications, and supplements thereto (including all exhibits and attachments thereto and documents referred to therein), and the execution, delivery, and performance thereof by the Reorganized Debtors, are authorized and approved, including, but not limited to, (a) the Exit DIP Facility, (b) the Exit Sealy Facility and (c) the Reinstated Credit Documents. Without need for further order or authorization of the Court, the Debtors and Reorganized Debtors, with the consent of the parties thereto, are authorized and empowered to make any and all modifications to any and all such documents consistent with the Plan. The Debtors are authorized to implement the Management Equity Incentive Plan without the necessity of shareholder approval required under any applicable law, including, without limitation, Sections 162(m) and 422(b)(1) of the Internal Revenue Code.

45. Approvals Not Required. This Confirmation Order shall constitute all approvals and consents required, if any, by the laws, rules, or regulations of any state or any other governmental authority (including, without limitation, approvals by the directors, shareholders and members, as applicable, of the Reorganized Debtors) with respect to the implementation or consummation of the Plan and any documents, instruments, or agreements, and any amendments or modifications thereto, and any other acts referred to in or contemplated by the Plan, the Disclosure Statement, the Plan Documents, the Reinstated Credit Facility and any documents, instruments, or agreements, and any amendments or modifications thereto.

46. Exemption from Certain Taxes. Transfers provided for under the Plan shall be exempt from state and local taxation to the fullest extent permitted by Section 1146(c) of the Bankruptcy Code. Pursuant to Section 7.2 of the Plan, MD will transfer all or substantially all of its assets to TJB, other than its TJB shares and the Pledged Accounts. Such transfer and the deeds, bills of sale, or assignments executed in connection therewith will not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax or governmental assessment, and the appropriate state or local governmental officials or agents shall be, and hereby are, directed to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without payment of any such tax or governmental assessment.

47. Distributions. The Reorganized Debtors shall make all distributions required under the Plan. The Cash Distribution to be made on account of Allowed Convenience Claims shall be made by the Reorganized Debtors to the individual holders of such Claims at the address of the holder as reflected in the proof of claim filed by the holder, or, if no proof of claim has been filed, as reflected in the Debtors' Schedules. All distributions provided for in the Plan of New MD Common Stock shall be made by the Debtors to the Exchange Agent for delivery by the Exchange Agent to individual holders of Class 5 Claims that arise under the MD Notes as provided in the Plan. Notwithstanding the provisions of Section 7.8 of the Plan regarding cancellation of the Indenture, the distribution provisions of the Indenture shall continue in effect to the extent necessary to authorize the Indenture Trustee to receive and distribute to holders of Class 5 Claims distributions received by the Exchange Agent pursuant to the Plan on account of Class 5 Claims, and, subject to the provisions of Section 7.8 of the Plan, shall terminate completely upon completion of all distributions. All distributions of New MD Common Stock provided for in the Plan on account of the Allowed Unsecured Claims other than distributions

made on account of MD Note Claims shall be made by the Reorganized Debtors by the issuance to the Exchange Agent of the number of shares of New MD Common Stock distributable to holders of Allowed Unsecured Claims other than MD Note Claims. The Reorganized Debtors may, pursuant to Section 553 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any Allowed Claim the distributions to be made pursuant to the Plan on account of such Claim (before any distribution is made on account of such Claim), the claims, rights and Causes of Action of any nature that the Debtors or the Reorganized Debtors may hold against the holder of such Allowed Claim; provided that neither the failure to effect such a setoff nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors or the Reorganized Debtors of any such claims, rights and Causes of Action that the Debtors or the Reorganized Debtors may possess against such holder.

48. Final Fee Applications. All entities seeking an award by this Court of Professional fees, or of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under Sections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code, other than fees of Bankruptcy Services LLC, Kean Realty, LLC, and ordinary course professionals approved by separate orders of this Court, shall file their respective final applications for allowances of compensation for services rendered and reimbursement of expenses incurred through the Confirmation Date within forty-five (45) days after the Confirmation Date and serve such final applications upon (i) Mattress Discounters Corporation, 9822 Fallard Court, Upper Marlborough, MD 20722, Fax. No. (301) 599-7846, Attn: Steve Newton, Chief Executive Officer; (ii) Hale and Dorr LLP, 60 State Street, Boston, MA 02109, Fax No. (617) 526-5000, Attn: Mark N. Polebaum, Esq.; (iii) the Office of the United States Trustee, 6305 Ivy Lane, Suite 600, Greenbelt, MD 20770, Fax No. (301) 344-8431, Attn: Marc Shach, Esq.; (iv) Jones Day, 222 East 41st Street, New York, NY

10017-6702, Fax No. (212) 755-7306, Attn: Richard H. Engman, Esq.; (v) Ropes & Gray, One International Place, Boston, MA 02110-2624, Fax No. (617) 951-7050, Attn: William McCarthy, Esq.; and (vi) Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, NY 10017-3954, Fax. No. (212) 455-2502, Attn: Kathrine McLendon, Esq. (collectively, the “Application Service Parties”). Notice of any hearing to consider such final fee applications shall be sent to the Application Service Parties and all parties requesting service of notice and pleadings in these cases pursuant to Bankruptcy Rule 2002. No further notice shall be required. Final allowances of compensation for services rendered and reimbursement of expenses granted by this Court, shall be paid in full in such amounts as are allowed by this Court (a) on the later of the Effective Date or the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as practicable, (b) upon such other terms as may be mutually agreed upon between such holder of an Allowed Administrative Claim and the Debtors or Reorganized Debtors or (c) in accordance with the terms of any applicable administrative procedures order entered by this Court. Any and all monthly fee applications filed with the Court prior to the Confirmation Date may be incorporated by reference into the final fee application. The final fee applications provided for herein shall be in lieu of the interim fee application requests required by this Court’s December 4, 2002 order establishing procedures for interim compensation and reimbursement of expenses. All Professional fees for services rendered in connection with the Chapter 11 Cases and the Plan after the Confirmation Date, including, without limitation, those relating to the occurrence of the Effective Date, the prosecution of Causes of Action preserved hereunder and the resolution of Disputed Claims, shall be paid by the Reorganized Debtors upon receipt of an invoice therefore, or on such other terms as the Reorganized Debtors may agree to, without the need for further Court authorization or entry of a Final Order. If the Reorganized

Debtors and any Professional cannot agree on the amount of post-Confirmation Date fees and expenses to be paid to such Professional, such amount shall be determined by this Court.

49. Permanent Injunction. Except as otherwise expressly provided in the Plan or this Confirmation Order, from and after the Effective Date, all Persons who have been, are, or may be holders of Claims against or Equity Interests in the Debtors are enjoined from taking any of the following actions against or affecting the Debtors, the Estates or the Assets, and with respect to holders of claims or equity interests in the Debtors who voted in favor of the Plan are enjoined from taking any of the following actions against the Committee, or any of the Debtors' respective current officers (in place immediately prior to the Petition Date), directors (in place immediately prior to the Petition Date), employees, agents, or related representatives, members, advisors, or attorneys or their respective assets and property with respect to such Claims or Equity Interests: (a) commencing, conducting or continuing in any manner, directly or indirectly, Cause of Action or other proceeding of any kind (including, without limitation, all Causes of Action and proceedings that are pending as of the Effective Date, which must be withdrawn or dismissed with prejudice); (b) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order; and (c) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any encumbrance.

50. Channeling Injunction. All Released Claims shall be channeled to the Funding Party Contributions and the holders of Released Claims are enjoined from:

- i. commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind in respect of a Released Claim against a Released Person or its direct or indirect successor in interest;
- ii. enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order in respect of a Released Claim against a Released Person

or its assets or property, or its direct or indirect successor in interest, or any assets or property of such transferee or successor;

- iii. creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any lien in respect of a Released Claim against a Released Person or its assets or property, or its indirect or indirect successors in interest, or any assets or property of such transferee or successor;
- iv. asserting any set-off, right of subrogation or recoupment of any kind in respect of a Released Claim, directly or indirectly against any obligation due a Released Person or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor; and
- v. proceeding in any manner that does not conform or comply with the provisions of the Plan, the Global Settlement Approval Order, or the Global Settlement Agreement.

Notwithstanding any provision in the Plan or this Confirmation Order to the contrary, the release and injunctive provisions of the Plan and this Confirmation Order, including those provisions set forth in Sections 4.1-4.4, 4.6 and 11.17 of the Plan, shall not release any claims or enjoin the prosecution of any claims against a non-Debtor party which (i) are not owned by Debtors or the estate and (ii) are owned individually by a creditor or equity interest holder of the Debtors who did not vote in favor of the Plan; provided however, that nothing contained in this sentence shall apply to Section 4.5 of the Plan.

51. Discharge of Debtors. Except as otherwise provided herein or in the Plan, the rights afforded in the Plan and the treatment of all Claims and Interests therein, shall be in exchange for and in complete satisfaction, discharge and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued thereon from and after the Petition Date, against the Debtors and the Debtors in Possession, or any of their Estates or Assets. Except as otherwise provided herein or in the Plan, on the Effective Date, all Claims against and Equity Interests in the Debtors and the Debtors in Possession shall be satisfied, discharged, and released in full. The Debtors shall not be responsible for any obligations of the

Debtors or Debtors in Possession except those expressly assumed by any of the Debtors in the Plan or provided for in this Confirmation Order. Except as otherwise provided herein or in the Plan, all Persons shall be precluded and forever barred from asserting against the Debtors, their respective successors or assigns, or their Assets, any other or further Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not the facts of or legal bases therefore were known or existed prior to the Effective Date.

52. Global Settlement Agreement. On the Effective Date, the Releases in the forms attached as Exhibits H-1, H-2 and H-3, respectively, to the Global Settlement Agreement in the form executed pursuant to the Global Settlement Agreement by the Debtors, each holder of an unsecured claim against any Debtor who is a party to the Global Settlement Agreement, each DIP Lender, and MHC, respectively, shall be deemed delivered and released from escrow without further action of any Person and shall become immediately effective, binding and irrevocable in accordance with its terms without any further action of any Person.

53. Releases, Exculpations, and Injunctions. The release, exculpation, and injunction provisions contained in the Plan, as limited by this Confirmation Order, are reasonable, fair, necessary and equitable, are given for valuable consideration, and are in the best interests of the Debtors and their chapter 11 estates, and such provisions shall be effective and binding upon all persons and entities.

54. CitiFinancial. Notwithstanding any other provision of the Plan or the Confirmation Order, the assets of the Debtors shall remain subject to the claims and interests of CitiFinancial Retail Services Division of Citicorp Trust Bank, FSB ("CitiFinancial"), to the same extent, validity and priority as such claims or interests existed on the Petition Date, pending a final resolution of the adversary proceeding (Adv. No. 02-1477 (DK)) (the "Constructive Trust

Suit”) between CitiFinancial and the Debtors pursuant to which CitiFinancial seeks declaratory and other equitable relief to the effect that \$476,045.62 of funds paid by CitiFinancial to the Debtors are not property of the estate and have been held by the Debtors in constructive trust for the benefit of CitiFinancial. Pursuant to Section 7.6 of the Plan, this Court specifically retains jurisdiction over the Debtors and all of their property and assets on and after the Effective Date for the purpose of finally resolving the Constructive Trust Suit.

55. Wachovia Bank, National Association. Notwithstanding anything to the contrary contained in this Order or in the Debtors’ Plan, the claims of Wachovia Bank, National Association, f/k/a First Union National Bank (“Wachovia Bank”), against MD which arise from and relate to the Letter of Credit Documents (as defined below) which claims constitute Other Secured Claims under the Plan, and pursuant to the Debtors’ election to treat such claims in accordance with Sections 2.6(d)(v) and 2.6 (vi) of the Plan, shall be treated as follows:

(a) The Letters of Credit. The following letters of credit issued by Wachovia Bank for the account of MD (collectively, the “Letters of Credit”) shall remain in full force and effect following the entry of this Order:

- i. Irrevocable Standby Letter of Credit No. SM419370C in the amount of \$1,400,000.00 issued by Wachovia Bank for the benefit of Royal Indemnity Co. on behalf of itself and its affiliate companies;
- ii. Irrevocable Standby Letter of Credit No. SM419372C in the amount of \$300,000.00 issued by Wachovia Bank for the benefit of Wells Fargo Financial National Bank;
- iii. Irrevocable Standby Letter of Credit No. SM419373C in the amount of \$100,000.00 issued by Wachovia Bank for the benefit of Wells Fargo Financial National Bank;
- iv. Irrevocable Standby Letter of Credit No. SM420467C in the amount of \$35,993.24 issued by Wachovia Bank for the benefit of Denton Management Co.; and

- v. Irrevocable Standby Letter of Credit No. S067259 in the amount of \$20,000.00 issued by Wachovia Bank for the benefit of Dimitrios Papagiannatis.

(b) Full Force and Effect. The various documents evidencing, securing, setting forth the terms and conditions applicable to, or otherwise documenting the Letters of Credit, including, without limitation, all applications and agreements relating thereto (collectively with the Letters of Credit, the "Letter of Credit Documents"), shall remain in full force and effect following the entry of this Order, except for any default of a kind specified in Section 365(b)(2) of the Bankruptcy Code existing as of the date of this Order. As of the Effective Date of the Plan, the Letter of Credit Documents are hereby ratified and confirmed by MD in all respects.

(c) Preservation of Lien. Following the entry of this Order and after the Effective Date of the Plan, Wachovia Bank shall retain its first priority duly perfected security interest and lien in, to and against the bank account of MD which is located at Wachovia Bank, bearing account number 2000013845920, and all cash and other assets of MD currently on deposit therein and any interest which hereafter accrues thereon (the "Pledged Account"), in accordance with the terms and conditions of the Letter of Credit Documents and as security for all obligations and indebtedness now or hereafter owed by MD to Wachovia Bank under the Letter of Credit Documents.

(d) Fees and Expenses. After the Effective Date of the Plan, MD shall pay Wachovia Bank all fees, expenses and other charges now or hereafter due and owing to Wachovia Bank under the Letter of Credit Documents, when and as due thereunder; provided however, that in the event a dispute arises concerning the fees, expenses or other charges Wachovia Bank incurred during the course of these Chapter 11 cases, such dispute shall be submitted to the Bankruptcy Court for resolution.

(e) Rights and Remedies. If, after the Effective Date of the Plan, any of the Letters of Credit are drawn upon for payment by the beneficiary or beneficiaries thereunder, Wachovia Bank shall be entitled to exercise all of its rights and remedies provided for in the Letter of Credit Documents without first obtaining an order or other relief from the Bankruptcy Court.

(f) Other Bank Accounts. The Debtors also maintain various other deposit accounts at Wachovia Bank (collectively, the "Other Bank Accounts") and Wachovia Bank provides the Debtors with various cash management services and other services (collectively, the "Cash Management Services"). The Other Bank Accounts and the Cash Management Services which Wachovia Bank provides to the Debtors are the subject of an Order of the Bankruptcy Court dated October 24, 2002 ("Bank Account/Cash Management Services Order"). The Other Bank Accounts, the Cash Management Services, all documents evidencing or otherwise documenting the Other Bank Accounts and the Cash Management Services and the Bank Account/Cash Management Services Order shall remain in place and in full force and effect subsequent to the entry of this Order. After the Effective Date of the Plan, the Debtors shall pay Wachovia Bank all fees, expenses and other charges now or hereafter due and owing from the Debtors to Wachovia Bank as a result of or in connection with the Other Bank Accounts and the Cash Management Services, when and as due under the various documents evidencing or otherwise documenting the Other Bank Accounts and the Cash Management Services.

56. Termination of Injunctions and Automatic Stay. All injunctions or stays arising under or entered during the Reorganization Cases under sections 105 or 362 of the Bankruptcy Code or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

57. Substantial Consummation. The substantial consummation of the Plan, within the meaning of section 1127 of the Bankruptcy Code, shall be, and hereby is, deemed to occur on the Effective Date.

58. Nonoccurrence of Effective Date. In the event that the Effective Date does not occur, then (i) the Plan, (ii) assumption or rejection of executory contracts or unexpired leases pursuant to the Plan, (iii) any document or agreement executed pursuant to the Plan, and (iv) any actions, releases, waivers, or injunctions authorized by this Confirmation Order or any order in aid of consummation of the Plan shall be deemed null and void in all respects. In such event, nothing contained in this Confirmation Order, any order in aid of consummation of the Plan, or the Plan, and no acts taken in preparation for consummation of the Plan, (a) shall be deemed to constitute a waiver or release of any Claims or Interests by or against the Debtors or any other persons or entities, to prejudice in any manner the rights of the Debtors or any person or entity in any further proceedings involving the Debtors or otherwise, or to constitute an admission of any sort by the Debtors or any other persons or entities as to any issue, or (b) shall be construed as a finding of fact or conclusion of law in respect thereof.

59. Notice of Entry of Confirmation Order. On or before the thirtieth (30th) day following the date of entry of this Confirmation Order, the Debtors shall serve notice of entry of this Confirmation Order, pursuant to Bankruptcy Rules 2002(f)(7), 2002(k), and 3020(c), on all creditors and interest holders, the United States Trustee, and other parties in interest by causing notice of entry of the Confirmation Order, in substantially the form attached as Exhibit B (the "Notice of Confirmation"), to be delivered to such parties by first-class mail, postage prepaid. The notice described herein is adequate under the particular circumstances and no other or further notice is necessary.

60. Notice of Effective Date. Within five (5) Business Days following the occurrence of the Effective Date, the Reorganized Debtors shall file notice of the occurrence of the Effective Date and shall serve a copy of same on each party who has filed a request for copies of notices and pleadings in these Chapter 11 Cases under Fed. R. Bankr. P. 2002.

61. Dissolution of Committee(s). On the Effective Date, the Committee shall dissolve and its members shall be released and discharged from all rights and duties arising from, or related to, the Chapter 11 Cases.

62. Binding Effect. Pursuant to sections 1123(a) and 1142(a) of the Bankruptcy Code and the provisions of this Confirmation Order, the Plan and Plan Documents shall apply and be enforceable notwithstanding any otherwise applicable nonbankruptcy law.

63. Conflicts Between Order and Plan. Any document related to the Plan that refers to a plan of reorganization of the Debtors other than the Plan confirmed by this Order shall be, and it hereby is, deemed to be modified such that the reference to a plan of reorganization of the Debtors in such document shall mean the Plan confirmed by this Order, as appropriate. In the event of an inconsistency between the Plan, on the one hand, and any other agreement, instrument, or document intended to implement the provisions of the Plan, on the other, the provisions of the Plan shall govern (unless otherwise expressly provided for in such agreement, instrument, or document). To the extent of any inconsistency between the provisions of the Plan and this Confirmation Order, the terms and conditions contained in this Confirmation Order shall govern. The provisions of this Confirmation Order are integrated with each other and are nonseverable and mutually dependent unless expressly stated by further order of this Court. The failure to reference or discuss any particular provision of the Plan in this Confirmation Order shall have no effect on the validity, binding effect and enforceability of such provision, and each

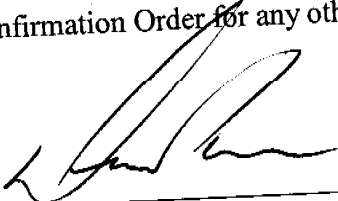
provision of the Plan shall have the same validity, binding effect and enforceability as if fully set forth in this Confirmation Order.

64. Reversal. If any or all of the provisions of this Confirmation Order are hereafter reversed, modified or vacated by subsequent order of this Court or any other court, such reversal, modification or vacatur shall not affect the validity of the acts or obligations incurred or undertaken under or in connection with the Plan prior to the Debtors' or Reorganized Debtors' receipt of written notice of any such order, nor shall such reversal, modification or vacatur of this Confirmation Order affect the validity or enforceability of such act or obligation. Notwithstanding any such reversal, modification or vacatur of this Confirmation Order, any such act or obligation incurred or undertaken pursuant to, and in reliance on, this Confirmation Order prior to the effective date of such reversal, modification or vacatur shall be governed in all respects by the provisions of this Confirmation Order and the Plan or any amendments or modifications thereto.

65. Retention of Jurisdiction. The Court hereby retains jurisdiction for all purposes provided in Article X of the Plan.

66. Headings. Headings utilized herein are for convenience of reference and shall not constitute a part of the Plan or this Confirmation Order for any other purpose.

Dated: March 4, 2003



The Honorable Duncan Keir
United States Bankruptcy Judge

EXHIBIT A

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(GREENBELT DIVISION)**

In re:

Mattress Discounters Corporation and
T.J.B., Inc.,

Debtors.

Chapter 11

Case No. 02-22330 (DK)

(Jointly Administered)

**FIRST AMENDED JOINT CHAPTER 11 PLAN OF
REORGANIZATION
OF MATTRESS DISCOUNTERS CORPORATION
AND T.J.B., INC.
PROPOSED BY THE DEBTORS AND THE
OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

DATED JANUARY 8, 2003

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Mattress Discounters Corporation, T.J.B., Inc., and the Official Committee of Unsecured Creditors appointed in the Debtors' cases hereby propose the following joint plan of reorganization under chapter 11, title 11, United States Code:

ARTICLE I.

DEFINITIONS AND INTERPRETATION

1.1. Definitions.

The capitalized terms used herein shall have the respective meanings set forth below:

(a) "Administrative Claim" means a Claim incurred by a Debtor (or its Estate) on or after the Petition Date and before the Effective Date for a cost or expense of administration in the Chapter 11 Cases entitled to priority under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation, all Fee Claims, all Cure Claims and all outstanding obligations under the Employee Obligation Order as of the Effective Date.

(b) "Affiliate" means, with respect to any Person, all Persons that would fall within the definition assigned to such term in section 101(2) of the Bankruptcy Code, if such Person was a debtor in a case under the Bankruptcy Code.

(c) "Allowed," when used

(i) with respect to any Claim, except for a Claim that is an Administrative Claim, means such Claim (A) to the extent it is listed in the Schedules as undisputed, liquidated and not contingent and is not a Contested Claim as of the Effective Date; (B) to the extent it is set forth pursuant to any stipulation or agreement that has been approved by Final Order of the Bankruptcy Court; (C) to the extent it is a Contested Claim as of the Effective Date, proof of which was filed timely with the Bankruptcy Court, and (I) as to which no objection was filed by the Objection Deadline, unless the Bankruptcy Court determines that such Claim is to be determined in a forum other than the Bankruptcy Court, in which case such Claim shall not become Allowed until determined by Final Order of such other forum and allowed by Final Order of the Bankruptcy Court; or (II) as to which an objection was filed by the Objection Deadline, to the extent allowed by a Final Order; or (D) which otherwise becomes an Allowed Claim as provided in the Plan; and

(ii) with respect to an Administrative Claim, means an Administrative Claim that has become "Allowed" pursuant to the procedures set forth in Section 5.1 of the Plan.

(d) "Assets" means, with respect to a Debtor, all of the Debtor's right, title and interest of any nature in property, wherever located, as specified in section 541 of the Bankruptcy Code, including Avoidance Assets.

(e) "Avoidance Assets" means all Causes of Action of an Estate that arise under the Bankruptcy Code, including, but not limited to, all preference, fraudulent transfer, and other avoidance Causes of Action assertable or arising under chapter 5 of the Bankruptcy Code.

(f) "Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended and codified at title 11 of the United States Code and as applicable to the Chapter 11 Cases.

(g) "Bankruptcy Court" means the Bankruptcy Court unit of the United States District Court for the District of Maryland, or such other court having jurisdiction over the Chapter 11 Cases.

(h) "Bankruptcy Rules" means the Federal Rules of Bankruptcy Procedure, as prescribed by the United States Supreme Court pursuant to section 2075 of title 28 of the United States Code and as applicable to the Chapter 11 Cases.

(i) "Bar Date Notice" means the Notice of Bar Dates for Filing Proofs of Claim Against the Debtors, as approved by the Bankruptcy Court by Final Order dated December 4, 2002.

(j) "Business Day" means any day on which commercial banks are open for business in New York, New York.

(k) "Cash" means legal tender of the United States of America or readily marketable direct obligations of, or obligations guaranteed by, the United States of America, commercial paper of domestic corporations carrying a Moody's Rating of "A" or better, or equivalent rating of any other nationally recognized rating service, or interest-bearing certificates of deposit or other similar obligations of domestic banks or other financial institutions having a shareholders' equity or equivalent capital of not less than Two Hundred Million Dollars (\$200,000,000), having maturities of not more than one (1) year, at the then best generally available rates of interest for like amounts and like periods.

(l) "Cash Funding Party" means MD Lender.

(m) "Causes of Action" means all claims, rights, actions, causes of action, liabilities, obligations, suits, debts, remedies, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, torts, fiduciary of statutory obligations, controversies, agreements, promises, variances, trespasses, damages or judgments, whether known or unknown and whether asserted or unasserted.

(n) "Chapter 11 Cases" means the jointly administered cases under chapter 11 of the Bankruptcy Code pending before the Bankruptcy Court with respect to each of the Debtors.

(o) "Claim" means (i) any right to payment from a Debtor, whether or not such right is known or unknown, reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or (ii) any right to an equitable remedy for breach of performance if such breach gives rise to a right of payment from a Debtor, whether or not such right to an equitable remedy is known or unknown, reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

(p) "Committee" means the Official Committee of Unsecured Creditors appointed in the Chapter 11 Cases by the Office of the United States Trustee in accordance with section 1108(a) of the Bankruptcy Code.

(q) "Confirmation Date" means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order.

(r) "Confirmation Hearing" means the hearing held by the Bankruptcy Court, as it may be continued from time to time, on confirmation of the Plan.

(s) "Confirmation Order" means the order of the Bankruptcy Court confirming the Plan.

(t) "Contested Claim" means a Claim (A) to the extent it is listed in the Schedules as disputed, contingent, or unliquidated, in whole or in part; (B) that is listed in the Schedules as undisputed, liquidated, and not contingent and as to which a proof of claim has been filed with the Bankruptcy Court, to the extent the proof of claim exceeds the amount or asserts a priority different from that set forth in the Schedules; (C) that is not listed in the Schedules, but as to which a proof of claim has been filed with the Bankruptcy Court; or (D) as to which an objection has been filed on or before the Effective Date; provided, that a Claim that is Allowed by Final Order or pursuant to the Plan on or before the Effective Date shall not be a Contested Claim.

(u) "Convenience Claim" means the Claim of a holder of an Allowed Unsecured Claim (other than a Claim of a holder of MD Notes) that is \$10,000 or less, or at the Debtors' election made prior to the Effective Date up to \$15,000, or who elects pursuant to the terms hereof to receive the treatment set forth in Section 2.6(f) of the Plan.

(v) "Cure Claims" means all Claims arising under section 365(b) of the Bankruptcy Code from the assumption of an executory contract or lease pursuant to the Plan.

(w) "Cure Payment Objection Deadline" means the deadline for filing objections to cure claims established in the Voting Procedures Order.

(x) "Debtors" means collectively, MD and TJB.

(y) "Debtors in Possession" means the Debtors, each in its respective capacity as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

(z) "DIP Claims" means all of the payment obligations owed by the Debtors to the DIP Lenders under the DIP Credit Agreement and the DIP Order.

(aa) "DIP Credit Agreement" means the Post-Petition Credit and Security Agreement by and among, MD, as borrower, TJB, as guarantor, MD Lender, as collateral agent and cash funding party, and Sealy, as trade funding party, dated as of November 8, as approved by the Bankruptcy Court pursuant to the DIP Order, together with all documents, instruments and agreements executed or entered into in connection therewith, and any amendments thereto.

(bb) "DIP Lenders" means MD Lender and Sealy.

(cc) "DIP Order" means the Final Order of the Bankruptcy Court, dated as of December 9, 2002, approving the DIP Credit Agreement.

(dd) "Disallowed," when used with respect to a Claim, means a Claim, or such portion of a Claim, that has been disallowed by a Final Order of the Bankruptcy Court.

(ee) "Disclosure Statement" means the disclosure statement respecting the Plan, as approved by the Bankruptcy Court as containing adequate information in accordance with section 1125 of the Bankruptcy Code, all exhibits and annexes thereto and any amendments or modifications thereof.

(ff) "Distribution" means the payment or distribution under the Plan of property or interests in property to the holders of Allowed Claims.

(gg) "Distribution Date" means either the Initial Distribution Date or a Subsequent Distribution Date.

(hh) "Distribution Record Date" means 5:00 p.m. (prevailing Eastern time) on the Business Day immediately preceding the Effective Date.

(ii) "Effective Date" means a date to be agreed upon by the Debtors, the DIP Lenders and the Proponents after all of the conditions specified in Section 9.2(b) of the Plan have been satisfied or waived, and on which date the Plan shall be substantially consummated pursuant to section 1101(2) of the Bankruptcy Code and become effective and binding on the Debtors and all holders of Claims and Equity Interests but in any event not later than 10 Business Days after all of the conditions specified in Section 9.2(b) of the Plan have been satisfied or waived.

(jj) "Employee Obligation Order" means the Final Orders of the Bankruptcy Court, dated October 24, 2002 and December 4, 2002, permitting the Debtors to satisfy certain prepetition obligations owed employees.

(kk) "Equity Interest" means any ownership or equity interest in any of the Debtors, including without limitation, membership interests, stock, warrants, options, or other rights to purchase any ownership or equity interest in any of the Debtors.

(ll) "Estate" means the estate of any Debtor created by section 541 of the Bankruptcy Code upon the commencement of the Chapter 11 Cases.

(mm) "Estimated Claims Order" means any order of the Bankruptcy Court estimating any Claim or the aggregate amount of all Claims in any class created under the Plan to aid in the confirmation of the Plan, or the calculation of distributions under the Plan.

(nn) "Exchange Agent" means such person or entity appointed as exchange agent by the Debtors.

(oo) "Existing MD Stock" means all issued and outstanding equity interests in MD.

(pp) "Exit DIP Facility" means the new credit facility to be entered into by MD and the MD Lender, which shall provide for the payment of the Credit Obligations arising under and as defined in the DIP Credit Agreement, the documents evidencing which shall be in substantially the form of those filed with the Bankruptcy Court as Plan Documents and shall in any event reflect and be consistent with the terms and conditions set forth on the Exit DIP Facility Term Sheet.

(qq) "Exit DIP Facility Term Sheet" means the Exit DIP Facility Term Sheet in the form attached hereto as Exhibit B.

(rr) "Exit Sealy Facility" means the new credit facility to be entered into by MD and Sealy, which shall provide for the payment of the Tranche B Secured Claims, the documents evidencing which shall be in substantially the form of those filed with the Bankruptcy Court as Plan Documents and shall in any event reflect and be consistent with the terms and conditions set forth on the Exit Sealy Facility Term Sheet.

(ss) "Exit Sealy Facility Term Sheet" means the Exit Sealy Facility Term Sheet in the form attached hereto as Exhibit C.

(tt) "Fee Application" means an application of a Professional Person under section 330 or 503 of the Bankruptcy Code for final allowance of compensation and reimbursement of expenses incurred in the Chapter 11 Cases from the Petition Date to the Effective Date.

(uu) "Fee Claim" means a Claim that is the subject of a Fee Application filed in the Chapter 11 Cases.

(vv) "Final Cash Collateral Order" means the Final Order Authorizing Debtors' Use of Lenders' Cash Collateral and Granting Adequate Protection Pursuant to 11 U.S.C. §§ 361 and 363 and Fed. R. Bankr. P. 4001 dated November 21, 2002.

(ww) "Final Order" means (i) an order or judgment of the Bankruptcy Court or any other court or adjudicative body as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending, or (ii) in the event that an appeal, writ of certiorari, reargument, or rehearing thereof has been sought, such order of the Bankruptcy Court or any other court or adjudicative body shall have been affirmed by the highest court to which such order was appealed, or certiorari has been denied, or from which reargument or rehearing was sought, and the time to take any further appeal, petition for certiorari or move for reargument or rehearing shall have expired; provided, that no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure or Bankruptcy Rule 9024 may be filed with respect to such order.

(xx) "Final Payment Date" means the Date as announced by the Debtors on which the Final Distribution will be made.

(yy) "Global Settlement Agreement" means the Settlement Agreement, dated November 8, 2002, by and among the Debtors, the Committee, the DIP Lenders, MHC, and each

holder of an unsecured claim against a Debtor who shall become party to such agreement by execution and delivery to the Debtors, MHC, the Committee, and the DIP Lenders of a fully completed counterpart signature page to such agreement in the form attached thereto and by execution and delivery of a release in the appropriate form attached thereto as provided therein.

(zz) "Global Settlement Approval Order" means the Final Order of the Bankruptcy Court approving the Global Settlement Agreement.

(aaa) "Indenture" means the indenture of trust entered into by and between MD, the guarantors referred to therein, and State Street Bank and Trust, as indenture trustee, dated August 6, 1999, pursuant to which the MD Notes were issued.

(bbb) "Indenture Trustee" means State Street Bank and Trust, as indenture trustee under the Indenture.

(ccc) "Initial Distribution Date" means, with respect to any Claim, the Effective Date or as soon thereafter as is practical if such Claim is then an Allowed Claim, or, if not Allowed on the Effective Date, the first Business Day after such Claim becomes Allowed or as soon thereafter as is practical.

(ddd) "Intercompany Claims" means any claims owing by MD to TJB or by TJB to MD.

(eee) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and any applicable rulings, regulations (including temporary and proposed regulations) promulgated thereunder, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or the IRS.

(fff) "IRS" means the United States Internal Revenue Service.

(ggg) "Lender Releasees" means the Tranche A Lenders and their respective officers, directors, employees, agents, attorneys, accountants and financial advisors.

(hhh) "Lender Secured Claims" means all of the Secured Claims of the Tranche A Lenders arising under or related to the Tranche A Obligations under the Prepetition Credit Documents.

(iii) "Management Equity Incentive Plan" means the post-confirmation senior management equity incentive plan as agreed to by the Proponents and the DIP Lenders, which shall reflect and be consistent with the terms and conditions set forth on the Management Equity Incentive Plan Term Sheet.

(jjj) "Management Equity Incentive Plan Term Sheet" means the Management Equity Incentive Plan Term Sheet in the form filed with the Bankruptcy Court as a Plan Document.

(kkk) "Management Retention Program" means the senior management retention, bonus program, which shall reflect and be consistent with the terms and conditions set forth on the Management Retention Program Term Sheet.

(lll) "Management Retention Program Term Sheet" means the Management Retention Program Term Sheet attached hereto as Exhibit E.

(mmm)"MD" means Mattress Discounters Corporation, a Delaware corporation, the debtor and debtor in possession in chapter 11 case no. 02-22330.

(nnn) "MD Lender" means MD Lender, Inc., a Delaware corporation.

(ooo) "MD Notes" means all of MD's issued and outstanding 12-5/8% Senior Notes due 2007.

(ppp) "MHC" means Mattress Holding Corporation, a Delaware corporation.

(qqq) "New Bylaws" means collectively the New MD Bylaws and the New TJB Bylaws.

(rrr) "New Charters" means collectively the New MD Charter and the New TJB Charter.

(sss) "New MD Bylaws" means the bylaws of MD, as amended and restated in accordance with Section 7.3 of the Plan, in substantially the form filed with the Bankruptcy Court as a Plan Document.

(ttt) "New MD Charter" means the certificate of incorporation of MD, as amended and restated in accordance with Section 7.3 of the Plan, in substantially the form filed with the Bankruptcy Court as a Plan Document.

(uuu) "New MD Common Stock" means the \$.001 par value authorized common stock of MD as of the Effective Date.

(vvv) "New TJB Bylaws" means the bylaws of TJB, as amended and restated in accordance with Section 7.3 of the Plan, in substantially the form filed with the Bankruptcy Court as a Plan Document.

(www) "New TJB Charter" means the charter of TJB, as amended and restated in accordance with Section 7.3 of the Plan, in substantially the form filed with the Bankruptcy Court as a Plan Document.

(xxx) "Objection Deadline" means the deadline for filing objections to Claims as set forth in Section 9.1 of the Plan.

(yyy) "Other Secured Claim" means any Secured Claim that is not a Lender Secured Claim, a Tranche B Secured Claim or a DIP Claim.

(zzz) "Participation Agreement" means that certain Participation Agreement dated January 11, 2002 by and among the lenders under the Prepetition Credit Documents, the Administrative Agent and Sealy.

(aaaa) "Person" means an individual, corporation, partnership, joint venture, trust, estate, unincorporated association, unincorporated organization, governmental entity, or political subdivision thereof, or any other entity.

(bbbb) "Petition Date" means October 23, 2002, the date on which the Debtors commenced the Chapter 11 Cases by filing with the Bankruptcy Court their voluntary petitions for protection under chapter 11 of the Bankruptcy Code.

(cccc) "Plan" means this joint chapter 11 plan of reorganization for the Debtors, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time, the Plan Documents and the exhibits and schedules to the foregoing, as the same may be in effect at the time such reference becomes operative.

(dddd) "Plan Documents" means the documents that aid in effectuating the Plan as specifically identified as such herein and filed by the Proponents with the Bankruptcy Court with the approval of the DIP Lenders as specified in Section 1.5 of the Plan.

(eeee) "Post-Confirmation Interest" means simple interest at the rate of 6.00% per annum or such other rate as the Bankruptcy Court may determine at the Confirmation Hearing is appropriate, such interest to accrue from the Effective Date, or, in the case of a Contested Claim, the date of entry of a Final Order allowing such Contested Claim.

(ffff) "Prepetition Credit Documents" means (i) that certain Credit Agreement, dated as of August 6, 1999, as amended and restated as of January 11, 2002, and as amended by the First Amendment, dated as of May 14, 2002, the Second Amendment, dated as of June 20, 2002 and the Third Amendment, dated as of September 30, 2002, among MHC, MD, the several banks and other financial institutions from time to time parties thereto, Fleet National Bank, as co-agent, and JP Morgan Chase Bank (f/k/a The Chase Manhattan Bank), as administrative agent (the "Administrative Agent"), (ii) the Prepetition Guarantee and (iii) all documents, instruments and agreements made or executed and delivered in connection therewith.

(gggg) "Prepetition Guarantee" means that certain Guarantee and Collateral Agreement, dated as of August 6, 1999, among JP Morgan Chase Bank (f/k/a The Chase Manhattan Bank), as administrative agent, and MHC, MD and TJB.

(hhhh) "Prepetition Sealy Supply Agreement" means that certain Supply Agreement dated as of March 17, 1997 between MD and Sealy, Inc., an Ohio corporation, as amended by (i) Amendment No. 1 dated June 30, 1997, (ii) Amendment No. 2 dated as of March, 1998, (iii) Amendment dated August 1, 1999, (iv) Fourth Amendment to Supply Agreement dated January 10, 2002, (v) Agreement dated August 2, 2002, and (vi) Amendment No. 1 to Agreement dated September 30, 2002

(iiii) "Prepetition Sealy Supply Agreement Claim" means 150% of all amounts owing by the Debtors as of the Petition Date under the Prepetition Sealy Supply Agreement.

(jjjj) "Priority Claim" means any Claim to the extent such Claim is entitled to priority in right of payment under section 507(a) of the Bankruptcy Code, other than an Administrative Claim or a Tax Claim.

(kkkk) "Professional Person" means a Person retained or to be compensated for services rendered or costs incurred on or after the Petition Date and on or prior to the Effective Date pursuant to sections 327, 328, 330, 503(b), or 1103 of the Bankruptcy Code in these Chapter 11 Cases.

(llll) "Proponents" means the Debtors and the Committee.

(mmmm) "Pro Rata Share" means the proportion that the amount an Allowed Claim bears to the aggregate amount of all Claims in a particular class, including Contested Claims, but not including Disallowed Claims, (i) as calculated by the Disbursing Agent on or before any Distribution Date; or (ii) as determined by the Bankruptcy Court in an Estimated Claims Order, if such an order is sought and obtained.

(nnnn) "Reinstated Credit Documents" means the Prepetition Credit Documents, as they relate to the Lender Secured Claims, each as amended consistent with the terms and conditions set forth on the Reinstated Credit Document Term.

(oooo) "Reinstated Credit Document Term Sheet" means the Reinstated Credit Document Term Sheet in the form attached hereto as Exhibit F.

(pppp) "Released Claims" has the meaning ascribed to such term in Section 4.4 of the Plan.

(qqqq) "Reorganized Debtors" means MD and TJB on and after the Effective Date.

(rrrr) "Sealy" means Sealy Mattress Company, an Ohio corporation.

(ssss) "Schedules" means the schedules of assets and liabilities and the statements of financial affairs filed by the Debtors with the Bankruptcy Court, as required by section 521 of the Bankruptcy Code and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements may be amended by the Debtors in Possession from time to time in accordance with Bankruptcy Rule 1009.

(tttt) "Secured Claim" means (i) a Claim secured by a lien on any Assets, which lien is valid, perfected, and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or other applicable non-bankruptcy law, and which is duly established in the Chapter 11 Case, but only to the extent of the value of the Assets that secure payment of the Claim; (ii) a Claim that is secured by a valid right of setoff under section 553 of the Bankruptcy Code; (iii) a Claim that establishes a constructive trust on any Assets; or (iv) a Claim allowed under the Plan as a Secured Claim.

(uuuu) "Subsequent Distribution Date" means a date on which a Distribution is required to be made other than the Initial Distribution Date.

(vvvv) "Supply Agreement" means that certain agreement between Sealy, Inc., an Ohio Corporation, Sealy, and MD dated as of November 8, 2002, which amends and restates in its entirety the Prepetition Sealy Supply Agreement.

(www) "Tax Claim" means a Claim against any of the Debtors that is of a kind specified in section 507(a)(8) of the Bankruptcy Code.

(xxxx) "TJB" means T.J.B., Inc., a Delaware corporation, the debtor and debtor in possession in chapter 11 case no. 02-22331.

(yyyy) "Tranche A Lenders" means the holders of the Lender Secured Claims.

(zzzz) "Tranche B Lenders" means Sealy in its capacity as a holder of a participation interest in the Tranche B Secured Claims.

(aaaa) "Tranche B Secured Claims" means all of the Secured Claims of the Tranche B Lenders arising under or related to the Tranche B Obligations under the Prepetition Credit Document.

(bbbb) "Unsecured Claims" means all Claims, including, without limitation, all Claims of the holders of the MD Notes (which shall be treated as Class 4A-MD Unsecured Claims for all purposes under the Plan) and the Prepetition Sealy Supply Agreement Claim, but excluding Other Secured Claims, Lender Secured Claims, Administrative Claims, Priority Claims and Tax Claims.

(cccc) "Voting Procedures Order" means the Final Order of the Bankruptcy Court approving procedures relating to the solicitation and tabulation of votes on the Plan.

(dddd) "Voting Record Date" means the date set in the Voting Procedures Order for determining holders of claims and interests entitled to vote to accept or reject the Plan.

1.2. Interpretation.

Unless otherwise specified, all section, article, and exhibit references in the Plan are to the respective section in, article of, or exhibit to, the Plan, as the same may be amended, waived, or modified from time to time. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions of the Plan. Words denoting the singular number shall include the plural number and vice versa, and words denoting one gender shall include the other gender.

1.3. Application of Definitions and Rules of Construction Contained in the Bankruptcy Code.

Words and terms defined in section 101 of the Bankruptcy Code shall have the same meaning when used in the Plan, unless a different definition is given in the Plan. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan.

1.4. Other Terms.

The words "herein," "hereof" "hereto" "hereunder," and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan.

A term used herein that is not defined herein shall have the meaning ascribed to that term, if any, in the Bankruptcy Code.

1.5. Appendices and Plan Documents.

All appendices and exhibits to the Plan and the Plan Documents are incorporated into the Plan by this reference and are a part of the Plan as if set forth in full herein. All Plan Documents shall be filed by the Proponents with the approval of the DIP Lenders with the Clerk of the Bankruptcy Court not less than ten (10) days prior to the commencement of the Confirmation Hearing. Holders of Claims and Equity Interests may obtain a copy of the Plan Documents, once filed, by a written request sent to the following address:

Bankruptcy Services, LLC
70 E. 55th Street, 6th Floor
New York, New York 10022-3222
Attn: Angharad Bowdler

ARTICLE II.

CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

2.1. Claims and Equity Interests Classified.

For all purposes under the Plan, including voting, all confirmation matters and treatment, all Claims (except for Administrative Claims and Tax Claims) and Equity Interests shall be classified as set forth in this Article II of the Plan.

2.2. Administrative Claims and Tax Claims.

As provided in section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Tax Claims shall not be classified under the Plan. Rather, all such Claims shall be treated separately as unclassified Claims on the terms set forth in Article III of the Plan.

2.3. Identification of Impaired and Unimpaired Classes of Claims and Equity Interests.

Claims against and Equity Interests in each of the Debtors are classified as follows:

- (a) Class 1: Priority Claims Unimpaired
- (b) Class 2: Lender Secured Claims Impaired
- (c) Class 3: Tranche B Secured Claims Impaired
- (d) Class 4: Other Secured Claims Unimpaired
- (e) Class 5: Unsecured Claims Impaired
- (f) Class 6: Convenience Claims Impaired

(g) Class 7A: Equity Interests in MD Deemed to Reject

(h) Class 7B: Equity Interests in TJB Unimpaired

2.4. Separate Classification of Claims.

Although for convenience Class treatments are set forth in consolidated fashion in the Plan, in the event that the Bankruptcy Court does not approve the provisions of the Plan providing for the substantive consolidation of the Debtors for voting and distribution purposes, each of the Classes of Claims set forth in Section 2.3 above shall be treated as a separate class as to each of MD and TJB for purposes of voting and distribution under the Plan. Although Priority Claims and Other Secured Claims against each Debtor have been placed in one category for purposes of convenience, (a) each separate category of Priority Claims (Section 507(a)(3), Section 507(a)(4), etc.) shall be treated as a separate class for purposes of voting and receiving distributions under the Plan (to be designated as Class 1(i), Class 1(ii), Class 1(iii), etc.) and (b) each Other Secured Claim shall be treated as a separate class for purposes of voting and receiving distributions under the Plan (to be designated as Class 4(i), Class 4(ii), Class 4(iii), etc.).

2.5. Impairment Controversies.

If a controversy arises as to whether any Claim or Equity Interest, or any class of Claims or Equity Interests, is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy.

2.6. Treatment of Classified Claims and Equity Interests.

The classes of Claims against and Equity Interests in the Debtors shall be treated under the Plan as follows:

(a) **Class 1 - Priority Claims.** Each holder of an Allowed Priority Claim shall be unimpaired under the Plan and, pursuant to section 1124 of the Bankruptcy Code, all of the legal, equitable and contractual rights in respect of such Claim shall be fully reinstated and retained as though the Chapter 11 Cases had not been filed, except as provided in section 1124(2)(A)-(C) of the Bankruptcy Code; provided, however, that if the Bankruptcy Court determines for any reason that a class of Priority Claims may not be treated as unimpaired, then such class of Priority Claims shall be deemed to have rejected the Plan and shall receive payment in full in cash as required by Section 1129(a)(9)(B)(ii) of the Bankruptcy Code.

(b) **Class 2 - Lender Secured Claims.** Each holder of an Allowed Lender Secured Claim shall be paid in full pursuant to the Reinstated Credit Documents. The Lender Secured Claims are hereby Allowed as of the Petition Date in the amount of \$15,932,404.

(c) **Class 3 - Tranche B Secured Claims.** The Tranche B Secured Claims shall be Allowed in the principal amount of \$12.5 million, and interest accrued through October 22, 2002 in the amount of \$112,569 and interest through the Effective Date at a per diem rate of \$2,311.64 and the reasonable fees and expenses, including, without limitation, legal fees and expenses, of Sealy incurred in connection with its interest in the Tranche B Claims, the Global

Settlement Agreement, the DIP Credit Agreement, the Sealy Exit Facility, the Exit DIP Facility, the Prepetition Sealy Supply Agreement, the Supply Agreement, or otherwise in connection with the transactions contemplated by the Settlement Agreement. Each holder of an Allowed Tranche B Secured Claim shall be paid in full pursuant to the Exit Sealy Facility and payment of the fees and expenses provided for in Article 4.2.

(d) Class 4 - Other Secured Claims. Each holder of an Allowed Other Secured Claim shall receive on the Distribution Date, at the option of the Proponents and the DIP Lenders (acting together), either (i) a single Cash payment in an amount equal to such holder's Allowed Other Secured Claim, (ii) the Assets securing payment of such Allowed Other Secured Claim, (iii) if such Allowed Other Secured Claim is based on a right of offset or recoupment, the right to implement such right of offset or recoupment, (iv) deferred cash payments having a present value as of the Effective Date equal to the value of the collateral securing the Allowed Other Secured Claim and the holder of such claim shall retain its interests in the collateral, (v) the legal, equitable and contractual rights to which the holder of an Allowed Other Secured Claim is entitled shall be reinstated and such holder shall be paid in accordance with such legal, equitable and contractual rights, or (vi) such other treatment as may be agreed upon in writing by the Proponents, the DIP Lenders and the holder of such Allowed Other Secured Claim.

(e) Class 5 - Unsecured Claims. Each holder of an Allowed Unsecured Claim (other than a Convenience Claim) shall receive in complete satisfaction of such Claim, its Pro Rata Share of New MD Common Stock (subject to the Management Equity Incentive Plan and shares of New MD Common Stock issued to a Professional Person in satisfaction of an Administrative Claim). The Unsecured Claims on account of the MD Notes are hereby Allowed in the amount of \$153,952,756.

(f) Class 6 - Convenience Claims. Each holder of an Allowed Convenience Claim shall receive, in complete satisfaction of such Claim, a single cash payment equal to 10% of the Allowed amount of such Convenience Claim. Any holder of a MD Unsecured Claim (other than Claims of holders of MD Notes) that desires treatment of such Claim as a Convenience Claim shall make such election on the ballot to be provided in accordance with the Voting Procedures Order.

(g) Class 7A - MD Equity Interests. All Equity Interests in MD, including, without limitation, the Existing MD Stock, shall be cancelled and annulled as of the Effective Date and no holder of an Equity Interest in MD shall receive or retain any property on account thereof.

(h) Class 7B - TJB Equity Interests. All Allowed Equity Interests in TJB shall be unimpaired under the Plan and, pursuant to section 1124 of the Bankruptcy Code, all of the legal, equitable and contractual rights in respect of such Allowed Equity Interest shall be held by MD.

ARTICLE III.

PROVISIONS FOR TREATMENT OF UNCLASSIFIED CLAIMS UNDER THE PLAN

3.1. Treatment of Administrative Claims.

All Administrative Claims shall be treated as follows:

(a) **Time for Filing Administrative Claims.** The holder of an Administrative Claim, other than (i) a Fee Claim, (ii) a liability incurred and payable in the ordinary course of business by a Debtor (and not past due), (iii) the fees and expenses incurred by the professionals employed by the informal committee of the holders of the MD Notes from the Petition Date through October 29, 2002 (for which fees and expenses such professionals shall be entitled to apply to the Court for allowance and with respect to which shall be deemed to have made a substantial contribution), (iv) the fees and expenses incurred by the DIP Lenders, Sealy, MHC and other Parties to the Global Settlement Agreement which are entitled to be paid under Section 3(d), 3(e) and 10(i) thereof and pursuant to this Plan, (v) the reasonable fees and expenses of the Indenture Trustee, including the reasonable fees and expenses of any professionals retained by the Indenture Trustee, (vi) the fees and expenses of the Tranche A Lenders to be paid under the Final Cash Collateral Order, or (vii) an Administrative Claim that has been Allowed on or before the Effective Date, must file with the Bankruptcy Court and serve on the Proponents, the DIP Lenders and the Office of the United States Trustee, notice of such Administrative Claim within twenty (20) days after service of notice of entry of the Confirmation Order. Such notice must include at a minimum (A) the name of the holder of the Claim, (B) the amount of the Claim, and (C) the basis of the Claim. **Failure to file and serve such notice timely and properly shall result in the Administrative Claim being forever barred and discharged.**

(b) **Time for Filing Fee Claims.** Each Professional Person shall be required to file with the Bankruptcy Court, and serve on all parties required to receive notice, a Fee Application within forty-five (45) days after the Effective Date. **The failure to file timely and serve such Fee Application shall result in the Fee Claim being forever barred and discharged.** Fee claims shall be paid within five (5) Business Days following entry of an order approving a Fee Application.

(c) **Allowance of Administrative Claims.** An Administrative Claim with respect to which notice has been properly filed and served pursuant to Section 3.1(a) of the Plan shall become an Allowed Administrative Claim if no objection is filed within sixty (60) days after the deadline for filing and serving a notice of such Administrative Claim specified in Section 5.1(a) hereof, or such later date as may be approved by the Bankruptcy Court on motion of a party in interest, without notice or a hearing. If an objection is filed within such sixty-day period (or any extension thereof), the Administrative Claim shall become an Allowed Administrative Claim only to the extent allowed by Final Order. An Administrative Claim with respect to which a Fee Application has been properly filed pursuant to Section 5.1(b) of the Plan shall become an Allowed Administrative Claim only to the extent allowed by Final Order.

(d) **Payment of Allowed Administrative Claims.** Allowed Administrative Claims shall be paid (i) in Cash in full, (ii) on the terms provided in any assumed contract or lease, or (iii) as otherwise agreed, in each case on the later of the Initial Distribution Date or the date such claim is Allowed; provided, that an Administrative Claim representing a liability incurred in the ordinary course of business of the Debtors shall be paid in the ordinary course of business. All Allowed Administrative Claims shall be paid by, and shall be the sole responsibility of, the Debtors.

(e) **Payment of DIP Claims.** The DIP Claims of the Cash Funding Party shall be paid and satisfied by execution and delivery of the Exit DIP Facility and payment of the fees and expenses provided for in Section 4.2. The DIP Claims of Sealy shall be paid and satisfied in accordance with the Supply Agreement and payment of the fee and charges provided for in Section 4.2.

3.2. Treatment of Tax Claims.

At the election of the Debtors, each holder of an Allowed Tax Claim on the Effective Date shall receive in full satisfaction of such holder's Allowed Tax Claim, (a) payment in Cash, in full; (b) payment in Cash in quarterly installments, with Post-Confirmation Interest thereon, beginning on the first April 30, June 30, September 30 or December 31 following the Effective Date and continuing quarterly thereafter, until the sixth anniversary of the date of assessment of such Allowed Tax Claim (provided that the Debtors may prepay the balance of any such Allowed Tax Claim at any time without penalty); (c) a lesser amount in one Cash payment as may be agreed upon in writing by such holder; or (d) such other treatment as may be agreed upon in writing by such holder. The Confirmation Order shall constitute and provide for an injunction by the Bankruptcy Court as of the Effective Date against any holder of a Tax Claim from commencing or continuing any action or proceeding against any responsible person or officer or director of the Debtors that otherwise would be liable to such holder for payment of a Tax Claim so long as no default has occurred with respect to such Tax Claim under this Section 5.2 of the Plan.

ARTICLE IV.

THE GLOBAL SETTLEMENT

4.1. Implementation of Global Settlement Agreement.

The Confirmation Order shall authorize the consummation and implementation of all of the transactions contemplated by the Global Settlement Agreement. In connection therewith, on the Effective Date,

(i) The Release in the form attached as Exhibit H-1 to the Global Settlement Agreement in the form executed pursuant to the Global Settlement Agreement by the Debtors shall be deemed delivered and released from escrow without further action of any Person and shall become immediately effective, binding and irrevocable in accordance with its terms without any further action of any Person;

(ii) The Release in the form attached as Exhibit H-2 to the Global Settlement Agreement in the form executed pursuant to the Global Settlement Agreement by each holder of an unsecured claim against any Debtor who is a party to the Global Settlement Agreement shall be deemed delivered and released from escrow without further action of any Person and shall become immediately effective, binding and irrevocable in accordance with its terms without any further action of any Person; and

(iii) The Release in the form attached as Exhibit H-3 to the Global Settlement Agreement in the form executed pursuant to the Global Settlement Agreement by each DIP Lender and by MHC shall be deemed delivered and released from escrow without further action of any Person and shall become immediately effective, binding and irrevocable in accordance with its terms without any further action of any Person.

4.2. Satisfaction of Administrative Claims.

Recognizing that the Debtors would have insufficient resources with which to pay the Administrative Claims of the DIP Lenders on the Effective Date, pursuant to the Global Settlement Agreement and the Plan, such Administrative Claims shall be satisfied over time and in the manner provided in the Exit DIP Facility, the Exit Sealy Facility and the Supply Agreement (as appropriate). The increased value of the Debtors as a going concern and related distributions to Unsecured Creditors under the Plan, made possible by such extension of repayment and the other benefits provided by the DIP Lenders to the Debtors pursuant to the Global Settlement Agreement, the Exit DIP Facility, the Exit Sealy Facility and the Supply Agreement (collectively, the "Funding Party Contribution"), shall be deemed to support the Channeling Injunction. Notwithstanding the first sentence of this Article 4.2, the Debtors shall be obligated to pay on the Effective Date as Administrative Claims under this Plan the reasonable fees and charges of Sealy and the DIP Lenders (including, without limitation, the legal fees and expenses of their counsel) incurred in connection with the Global Settlement Agreement, the DIP Credit Agreement, the Exit DIP Facility, the Exit Sealy Facility, the Supply Agreement or otherwise in connection with the transactions contemplated by the Settlement Agreement. The counsel for Sealy and the DIP Lenders shall not be required to file Fee Applications. If there is a dispute concerning the reasonableness of the fees and expenses, the Debtors, Sealy or the DIP Lenders shall file an appropriate pleading with the Bankruptcy Court to resolve such dispute.

4.3. Channeling Injunction.

Pursuant to the Global Settlement Agreement, the Confirmation Order shall contain an injunction (the "Channeling Injunction") (i) providing that all Released Claims shall be channeled to and fully and completely satisfied as a result of the Funding Party Contribution; and (ii) enjoining the holders of Released Claims from:

(i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind in respect of a

Released Claim against a Released Person or its direct or indirect successor in interest;

(ii) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order in respect of a Released Claim against a Released Person or its assets or property, or its direct or indirect successor in interest, or any assets or property of such transferee or successor,

(iii) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any lien in respect of a Released Claim against a Released Person or its assets or property, or its indirect or indirect successors in interest, or any assets or property of such transferee or successor,

(iv) asserting any set-off, right of subrogation or recoupment of any kind in respect of a Released Claim, directly or indirectly against any obligation due a Released Person or its assets or property, or its direct or indirect successors in interest, or any assets or property of such transferee or successor; and

(v) proceeding in any manner that does not conform or comply with the provisions of the Plan, the Global Settlement Approval Order, or the Global Settlement Agreement.

4.4. DIP Lenders, MCH, Principal Sealy Shareholders and Principal Mattress Holding Shareholders' Releases.

Notwithstanding any provision to the contrary set forth in the Plan, effective immediately upon the date of the Effective Date, and without the necessity for any further action of any Person, each of the Debtors hereby irrevocably releases, on its own behalf and on behalf of each of its subsidiaries and its Estate and each of its current or former creditors or interest holders (including, without limitation, any current or former holder of any MD Notes) (all such persons, collectively, the "Releasors"), each of the Released Persons from each of the Released Claims (each as defined below).

The term "Released Persons" means any of the DIP Lenders and MHC, the Principal Sealy Shareholders and the Principal Mattress Holding Shareholders (each as defined below) and their respective current and former shareholders, partners, members, affiliates and advisors, and the respective current and former principals, agents, officers, directors, shareholders, partners, members, affiliates, representatives or professionals of any of the foregoing, including, without limitation, every such person who serves or served as an officer, director, employee or agent of, or advisor to, any of MD, MHC, any of the DIP Lenders or any of their respective subsidiaries.

The term "Released Claims" means any and all claims and causes of action of any Releasor, or which might be pursued by any Releasor, (except for and excluding all Reserved Claims, as defined below) based on circumstances existing prior to or on the Effective Date arising from or related in any way to any of the Debtors or their respective subsidiaries, including, without limitation, any and all claims and causes of action arising from or in any way related to any of the Debtors or their respective subsidiaries based on circumstances existing

prior to or on the Effective Date arising from or related in any way to (i) any investment (direct or indirect) by any Person in any indebtedness arising under or with respect to any credit facility or any other arrangement under which any of the Debtors and/or MHC is or was a borrower or guarantor, the Prepetition Credit Documents, the MD Notes or any common or preferred equity of any of the Debtors and/or MHC, (ii) any action or omission or course of conduct of any Released Person with respect to any indebtedness arising under or with respect to any credit facility or any other arrangement under which any of the Debtors and/or MHC is or was a borrower or guarantor, the Prepetition Credit Documents, the MD Notes or any investment (direct or indirect) in any common or preferred equity of any of the Debtors and/or MHC (including, without limitation, any action or omission of any Released Person with respect to the issuance, acquisition, holding, voting or disposition of any such investment), (iii) any action or omission or course of conduct of any Released Person as an officer, director, employee or agent of, or advisor to, any of the Debtors, MHC or the DIP Lenders, (iv) any disclosure made or not made by any person to any current or former holder of any indebtedness arising under or with respect to any credit facility or any other arrangement under which any of the Debtors and/or MHC is or was a borrower or a guarantor, the Prepetition Credit Documents, the MD Notes or the Indenture, (v) any consideration paid in respect of any investment (direct or indirect) by any Person in any indebtedness arising under or with respect to any credit facility or any other arrangement under which any of the Debtors and/or MHC is or was a borrower or a guarantor, the MD Notes, any common or preferred equity investment (direct or indirect) in any of the Debtors and/or MHC or in respect of any services provided or to be provided to any of the Debtors and/or MHC under any management agreement or otherwise, (vi) any claim for equitable subordination or other re-characterization of any claim of Sealy (or any of its subsidiaries) in respect of the Tranche B Secured Claims or any other right of Sealy (or any of its subsidiaries) arising under the Participation Agreement, (vii) any avoidance claims of the Estates under Sections 542, 543, 544, 547, 548, 549, 553, or 724(a) of the Bankruptcy Code in respect of any payments made, obligations incurred or any contracts, agreements or arrangements involving any of the Released Persons, (viii) any claims or causes of action arising from or related in any way to any fiduciary duty of any of the Released Persons to any of the Debtors or the Estates or which the Estates might have asserted or any of their creditors or interest holders, and (ix) any action taken or not taken or course of conduct in connection with the contemplated Plan and the Petition or otherwise in respect in the Cases.

The term “Reserved Claims” means (X) any and all claims and causes of action of any Releasor, or which might be pursued by any Releasor, under any of the releases for the benefit of such Releasor delivered pursuant to the Global Settlement Agreement or under any of the following against any of the parties thereto: the Global Settlement Agreement; the Plan; the Supply Agreement; the Exit DIP Facility; or the Exit Sealy Facility; and (Y) any claims of any holder of any Lender Secured Claims or Tranche B Secured Claims against MHC based on the Prepetition Guarantee, and any claims of MHC against any of the Debtors arising by subrogation or other right of MHC, by reason of any payment made or satisfaction provided to such holder of Lender Secured Claims or Tranche B Secured Claims by reason of the Prepetition Guarantee.

The term “Principal Sealy Shareholders” means Bain Capital Fund V, L.P., Bain Capital Fund V-B, L.P., BCIP Trust Associates, L.P., BICP Associates, Sealy Investors 1, LLC (and its members, Sealy Partners (GC), L.L.C. (and its Managing Member, Chase Equity Associates, L.P.) and Bain Capital Partners V, L.P.), Sealy Investors 2, LLC (and its members, CIBC WG

Argosy Merchant Fund 2, L.L.C. and Bain Capital Partners V, L.P.), Sealy Investors 3, LLC (and its members, BancBoston Investments, Inc. and Bain Capital Partners V, L.P.).

The term “Principal Mattress Holding Shareholders” means Mattress Discounters Holding L.L.C. (and its members, including, without limitation, Bain Capital Fund VI, L.P., BCIP Associates II, BCIP Associates II-B, BCI Associates II-C, BCIP Trust, BCIP Trust Associates II-B, PEP Investment PTY Ltd., Harvard Private Capital Holdings, Inc., Mattress Discounters Investors 1, LLC (and its members Chase Mattress Partners (GC), L.L.C. (and its Managing Member, Chase Equity Associates, L.P.) and Bain Capital Partners VI, L.P.), Mattress Discounters Investors 2, LLC, Mattress Discounters Investors 3, LLC (and its members BancBoston Capital Inc. and Bain Capital Partners VI, L.P.), Mattress Discounters Investors 4, LLC, and Mattress Holding International, LLC), Bain Capital V Mezzanine Fund, L.P., BCM Capital Partners, L.P., BCIP Trust Associates II, Sankaty High Yield Asset Partners, L.P. and Sankaty High Yield Partners II, L.P.

On and after the Effective Date, the Debtors will not, and will cause each of the other Releasers not to, directly or indirectly, (a) assert, prosecute or commence, or seek to assert, prosecute or commence, any claim or cause of action against any Released Person in respect of any Released Claim or (b) transfer, assign or otherwise dispose of any right or interest it may have in any Released Claim to any other Person.

4.5. Lender Release

As of the Effective Date, the Debtors, on behalf of themselves and all of their successors and assigns, and each of the Debtors’ estates (collectively, including the Debtors and their estates, the “Releasing Parties”) will be deemed to have forever released, waived and discharged each of the Lender Releasees from all claims (as such term is defined in Section 101(5) of the Bankruptcy Code), obligations, suits, judgments, damages, demands, debts, rights, causes of action, liabilities, rights of contribution and rights of indemnification, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise (collectively, “Lender Claims”), that are based in whole in part on any act, omission, transaction, or other occurrence taking place on or prior to the Effective Date in any way relating to the Chapter 11 Cases, the Plan, the Prepetition Credit Documents or any document related thereto, the Lender Secured Claims, or any Tranche A Lenders’ loan relationship relating to the Prepetition Credit Documents, with the Debtors, which any Releasing Party has had or may have against a Lender Releasee.

4.6. Limitation of Releases

Notwithstanding anything contained in the Plan to the contrary, including but not limited to any injunction, release or exculpation clause, no professional (pre or post-petition, and including any professionals retained by the Debtors as “Ordinary Course Professionals”) or advisor by virtue of the Plan shall be released or exculpated from, or receive the benefit of any channeling injunction or indemnification with respect to, any malpractice they may commit in the course of their representation of their client and that is asserted by their client.

ARTICLE V.

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

5.1. Assumption of Executory Contracts and Unexpired Leases.

Attached to the Plan as Exhibit A is a list of executory contracts and unexpired leases, together with the amount, if any, of Cure Claims associated therewith. Pursuant to Section 365 of the Bankruptcy Code, all executory contracts or unexpired leases listed on Exhibit A to the Plan, as such may be amended prior to the Confirmation Hearing, shall be deemed to have been assumed by the applicable Debtor on the Effective Date. The Plan shall constitute a motion to assume such executory contracts and unexpired leases. Subject to the occurrence of the Effective Date, entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumptions pursuant to section 365 of the Bankruptcy Code and findings by the Bankruptcy Court that the amounts listed on Exhibit A are sufficient to cure any defaults that may exist, that each assumption is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases and that the requirements for assumption of any executory contract or unexpired lease to be assumed under section 365 of the Bankruptcy Code have been satisfied.

5.2. Cure of Defaults for Executory Contracts and Unexpired Leases Assumed.

Objections to the proposed Cure Claims must be made by the Cure Payment Objection Deadline. A party to an assumed executory contract or unexpired lease that does not file an appropriate pleading with the Bankruptcy Court on or before the deadline set by the Bankruptcy Court for objection to the Cure Claim is deemed to have waived its right to dispute such amount. All Cure Claims will be paid by the Reorganized Debtors as soon as practicable after the Effective Date, but not later than thirty (30) days after the Effective Date. In the event of a dispute regarding: (1) the existence of any default or the amount of any cure payments, (2) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of Section 365 of the Bankruptcy Code) under the executory contract or unexpired lease to be assumed or (3) any other matter pertaining to assumption of such contracts or leases, any cure payments required by Section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order by the Bankruptcy Court resolving the dispute and otherwise approving the assumption.

5.3. Indemnification of Directors, Officers and Employees.

The obligations of the Debtors to indemnify any Person serving at the Petition Date or thereafter as one of its directors, officers or employees by reason of such Person's service in such capacity, or as a director, officer or employee of any other corporation or legal entity, to the extent provided in the Debtors' constituent documents or by a written agreement with the Debtors or the law of the state in which the Reorganized Debtor is organized, shall be deemed and treated as executory contracts that are assumed by the Debtors pursuant to the Plan and Section 365 of the Bankruptcy Code as of the Effective Date. Any such indemnification obligations shall survive unimpaired and unaffected by entry of the Confirmation Order,

irrespective of whether such indemnification is owed for an act or event occurring before or after the Petition Date.

5.4. Rejection of Executory Contracts and Unexpired Leases.

Any executory contracts or unexpired leases of any of the Debtors that (a) are not listed on Exhibit A to the Plan, (b) have not been approved by the Bankruptcy Court prior to the Confirmation Date for assumption or assumption and assignment by any of the Debtors, (c) are not the subject of a pending motion to assume on the Confirmation Date and (d) is not the Prepetition Sealy Supply Agreement shall be deemed to have been rejected by the Debtors. The Plan shall constitute a motion to reject such executory contracts and unexpired leases, and the Debtors shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejections pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such rejected executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases.

5.5. Claims Arising from Rejection or Termination.

Claims created by the rejection of executory contracts or unexpired leases or the expiration or termination of any executory contract or unexpired lease prior to the Confirmation Date must be filed with the Bankruptcy Court and served on the Debtors (a) in the case of an executory contract or unexpired lease rejected by the Debtors prior to the Confirmation Date, in accordance with the order authorizing such rejection, or (b) in the case of an executory contract or unexpired lease that (i) was terminated or expired by its terms prior to the Confirmation Date, or (ii) is deemed rejected pursuant to Section 5.4 of the Plan, no later than thirty (30) days after the Confirmation Date, or (c) in the case of an executory contract or unexpired lease that is rejected by the Debtors after the Confirmation Date, within thirty (30) days after the entry of an order of the Bankruptcy Court authorizing and approving such rejection. Any Claims for which a proof of claim is not filed and served within such time will be forever barred from assertion and shall not be enforceable against the Debtors, their Estates or Assets. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be treated as Unsecured Claims under the Plan subject to objection by the Debtors.

ARTICLE VI.

**CONDITIONS PRECEDENT TO
CONFIRMATION OF THE PLAN AND
THE OCCURRENCE OF THE EFFECTIVE DATE**

6.1. Conditions Precedent to Confirmation.

The following are conditions precedent to confirmation of the Plan:

- (a) The Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court;

(b) The Clerk of the Bankruptcy Court shall have entered an order or orders, which may be the Confirmation Order, approving the Plan Documents, authorizing the Debtors to execute, enter into, and deliver the Plan Documents and to execute, implement, and to take all actions otherwise necessary or appropriate to give effect to, the transactions contemplated by the Plan and the Plan Documents.

(c) The Confirmation Order shall be, in form and substance, acceptable to the Proponents, the Tranche A Lenders and the DIP Lenders and shall provide, among other things that, except for the liabilities expressly assumed under the Plan, MD and TJB shall not be liable or responsible, as a successor, control person or otherwise, for any Claim, including, without limitation, a Claim arising under or in connection with (i) any employment, labor, pension, welfare, or compensation plan or agreement (or any similar plan or agreement), including, without limitation, any Claim relating to the Employee Retirement, Income, Security Act, the Fair Labor Standards Act, the Civil Rights Act, the Age Discrimination and Employment Act, or the National Labor Relations Act, (ii) any environmental condition, including, without limitation, any Claim relating the Comprehensive Environmental Response, Compensation, and Liability Act, (iii) any tax statutes or ordinances and (iv) any products liability theory or similar Claims or Cause of Action.

6.2. Conditions Precedent to the Occurrence of the Effective Date.

The following are conditions precedent to the occurrence of the Effective Date:

(a) The Confirmation Order and any other orders provided for in Section 9.1 hereof shall have been entered by the Clerk of the Bankruptcy Court, be in full force and effect and not be subject to any stay or injunction and except as waived by the Proponents, the Tranche A Lenders and the DIP Lenders shall be a Final Order.

(b) The Debtors shall have entered into the Exit DIP Facility, the Exit Sealy Facility and the Reinstated Credit Documents, which shall be in form and substance acceptable to the Proponents, the Tranche A Lenders and the DIP Lenders, and all conditions precedent to the consummation thereof shall have been waived or satisfied in accordance with the terms thereof.

(c) All necessary consents, authorizations and approvals shall have been given for the transfers of property and the payments provided for or contemplated by the Plan, including, without limitation, all Cash payments and the New MD Stock.

6.3. Waiver of Conditions.

The Proponents may waive any of the conditions set forth in Sections 6.1 and 6.2 of the Plan (subject to the approval rights of the DIP Lenders and the Tranche A Lenders set forth therein or elsewhere in the Plan or in the Global Settlement Agreement) in a writing executed by each of them.

ARTICLE VII.

MEANS FOR IMPLEMENTATION OF THE PLAN

7.1. Continued Corporate Existence.

Except as otherwise provided in the Confirmation Order and notwithstanding the substantive consolidation of the Debtors for purposes of voting and distribution, each of the Debtors shall continue to exist after the Effective Date as separate entities, with all powers accorded under the laws of the State of their incorporation or formation and their respective articles of incorporation and bylaws (including, without limitation, the New MD Charter and Bylaws).

7.2. Substantive Consolidation.

Entry of the Confirmation Order shall constitute the approval, pursuant to Section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of MD and TJB for purposes of voting on, confirmation of, and distributions under the Plan; provided, however, MD and TJB shall retain their respective current legal form. On and after the Effective Date, the Debtors may, without further approval of the Bankruptcy Court, cause either of the Debtors to be merged into the other or to one or more new entities (whether or not related) or to transfer some or all or substantially all of its assets to the other or to one or more new entities (whether or not related), provided that the requirements of the Reinstated Credit Documents, DIP Exit Facility and Sealy Exit Facility are complied with. On and after the Effective Date, (i) no distributions shall be made under the Plan on account of Intercompany Claims, (ii) all prepetition guaranties of TJB of obligations of MD or of MD of obligations of TJB shall be eliminated so that any claim against MD or TJB and any prepetition guarantee thereof executed by MD or TJB and any joint or several liability of any of MD or TJB shall be deemed to be one prepetition obligation of MD and TJB, and (iii) each and every Claim filed or to be filed against MD and TJB shall be deemed filed against MD and TJB, and shall be deemed one Claim against and obligation of MD and TJB.

7.3. The Charter and Bylaws.

Upon the occurrence of the Effective Date, the charter and bylaws of MD and TJB shall be amended and restated in substantially the form of the New Charters and New Bylaws, to, among other things, (a) prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such New Charters as permitted by applicable law, (b) authorize the cancellation of all existing Equity Interests in MD and the issuance of 3,000,000 shares of New MD Common Stock, (c) impose certain restrictions on the transfer of the New MD Common Stock and (d) otherwise effectuate the provisions of the Plan. The New MD Common Stock to be distributed pursuant to the Plan shall be issued pursuant to the exemption set forth in Section 1145(a)(1) of the Bankruptcy Code and shall be freely tradable, without restriction, by such holders except to the extent any such holder is an underwriter as provided in Section 1145(b)(1) of the Bankruptcy Code.

7.4. Corporate Action.

As applicable, on the Effective Date, the filing and/or adoption of the New Charters, and the New Bylaws, as contemplated by Section 7.3 hereof, shall be authorized and approved in all respects without further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by the stockholders or directors of MD or TJB. On the Effective Date or as soon thereafter as is practicable, MD shall file the New MD Charter and TJB shall file the New TJB Charter with the Secretary of State of the State of their respective incorporation. On the Effective Date, the cancellation of the Existing MD Stock, the issuance of the New MD Common Stock and all other matters provided under the Plan involving the corporate or company structure of the Debtors or corporate or company action by the Debtors shall be deemed to have occurred, be authorized, and shall be in effect from and after the Effective Date without requiring further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by the stockholders, directors or managers of the Debtors.

7.5. Directors and Officers.

The Reorganized Debtor

Subject to any requirement of Bankruptcy Court approval pursuant to Section 1129(a)(5) of the Bankruptcy Code, on the Effective Date, (i) the initial directors of each Debtor shall be appointed by the Committee, and (ii) the officers of each Debtor immediately prior to the Effective Date shall be the initial officers of each Reorganized Debtor. All directors of the Debtors serving immediately prior to the Effective Date other than Steve Newton shall be deemed to have resigned as of the Effective Date. Pursuant to Section 1129(a)(5), the Debtors will disclose, on or prior to the Confirmation Date, the identity and affiliations of any other Person proposed to serve on the initial board of directors of the Reorganized Debtors or as an initial officer of the Reorganized Debtors, and, to the extent such Person is an Insider, the nature of any compensation for such Person. Each such director and officer shall serve from and after the Effective Date pursuant to the terms of the New MD Charter or New TJB Charter, as applicable, and the applicable corporation law of the state in which MD and TJB is organized.

7.6. Vesting of Assets and Debtors' Authority.

Upon the occurrence of the Effective Date, all of the assets of the Debtors shall revert in the Reorganized Debtors free and clear of all liens, claims and encumbrances of every name and nature, except to the extent provided for in the Plan or the Confirmation Order. Until the Effective Date, the Bankruptcy Court shall retain custody and jurisdiction of the Debtors and their respective assets and operations. On and after the Effective Date, the Debtors and their respective assets and operations shall be released from the custody and jurisdiction of the Bankruptcy Court, except for those matters as to which the Bankruptcy Court specifically retains jurisdiction under the Plan or the Confirmation Order.

7.7. Effectuating Documents and Further Transactions.

Each of the officers of the Debtors is authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such

actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan and any notes or securities issued pursuant to the Plan.

7.8. Cancellation of Instruments and Agreements.

Upon the occurrence of the Effective Date, except as otherwise provided herein, all promissory notes, share certificates, warrants, membership interests, instruments, indentures (including, without limitation, the Indenture), or agreements evidencing, giving rise to, or governing any Claim or Equity Interest in the Debtors shall be deemed canceled and annulled without further act or action under any applicable agreement, law, regulation, order, or rule, and the obligations of the Debtors thereunder shall be discharged, except that the provisions of the Indenture relating to distributions, the Indenture Trustee's right to payment other than from the Debtors, lien on property to be distributed to holders of the MD Notes and the Indenture Trustee's right to indemnity, if any, as against holders of MD Notes, but not the Debtors, shall not be affected by the Plan, Confirmation or the occurrence of the Effective Date. If for any reason the Indenture Trustee does not serve as the disbursing agent with respect to the distributions to the holders of the MD Notes, then such liens provided to the Indenture Trustee under the Indenture shall constitute a lien on property in the possession of any such agent or custodian, all as provided in the Indenture, provided however, that upon payment in full by the Debtors of the fees and expenses, to the extent provided for in Section 8.8 hereof, distributions to holders of MD Notes shall not be reduced on account of any Indenture Trustee's fees and expenses.

7.9. Causes of Action.

Upon the occurrence of the Effective Date, except as may have been released or otherwise provided in the Plan, all Causes of Action assertable by any Debtor, including but not limited to Avoidance Assets, shall be retained by and vest in such Debtor. Upon the occurrence of the Effective Date, all Causes of Action of the Debtors or their successors in interest against a Released Person or the directors, officers and employees of the Debtors who served in such capacities on the last Business Day prior to the occurrence of the Effective Date (which may be asserted by the Debtors or their successors in interest directly for their own benefit or derivatively for the benefit of any Person), shall be waived, released and forever discharged.

7.10. Management Retention Program and Management Equity Incentive Plan.

The Debtors are hereby authorized to adopt and implement the Management Retention Program and the Management Equity Incentive Plan. As of the Effective Date, the Management Retention Program and the Management Equity Incentive Plan shall constitute the binding and enforceable obligation of the Debtors and the beneficiaries of such program and plan shall be entitled to the benefits provided for thereunder.

ARTICLE VIII.

DISTRIBUTIONS

8.1. Timing of Distribution; Disputed Claims.

Except as otherwise provided herein or by order of the Bankruptcy Court, distributions to be made on the Initial Distribution Date on account of Claims that are Allowed as of the Initial Distribution Date and are entitled to receive distributions under the Plan shall be made on the Initial Distribution Date or as promptly thereafter as practicable. For purposes of calculating a Pro Rata Share, the amount of the total Allowed Claims in each Class shall be calculated as if all unresolved Contested Claims in each Class were Allowed in the full amount thereof.

8.2. Methods of Distribution.

1. Cash Distributions to Holders of Class 6 Convenience Claims.

The cash payment distributable to holders of Class 6 Claims shall be made by the Reorganized Debtors to the holders of such claims at the address of the holder as reflected in the proof of claim filed by the holder, or if no proof of claim has been filed as reflected in the Debtors' schedules.

2. Announcement of Final Payment Date.

The Reorganized Debtors shall file a statement indicating that the Final Distribution Date has occurred or will occur. Such statement shall not be served on any party.

3. Distributions of New Common Stock

(a) Distributions on Account of MD Notes. All distributions provided for in the Plan of New MD Common Stock to holders of MD Notes shall be made by the Reorganized Debtors to the Exchange Agent for delivery by the Exchange Agent to individual holders of Class 5 Claims that arise under the MD Notes as provided in the Plan. Notwithstanding the provisions of Section 7.8 above regarding cancellation of the Indenture, the distribution provisions of the Indenture shall continue in effect to the extent necessary to authorize the Indenture Trustee to receive and distribute to Holders of Class 5 Claims distributions received from the Exchange Agent pursuant to the Plan on account of Class 5 Claims and subject to the provisions of Section 7.8, shall terminate completely upon completion of all Distributions. The Reorganized Debtors shall have no liability for any act or omission of the Exchange Agent. The Exchange Agent shall serve without bond and may employ or contract with other entities to assist in or make the Distributions required by the Plan.

(b) Distributions from the Exchange Agent. As soon as practicable after the Effective Date, the Reorganized Debtors shall cause the Exchange Agent to send a letter of transmittal to each holder of MD Notes, including the holder of a global note issued pursuant to the Indenture, advising such Holder of the

effectiveness of the Plan and the instructions for delivering to the Exchange Agent any MD Notes, including the holder of a global note issued pursuant to the Indenture, in exchange for the New MD Common Stock, issuable or distributable pursuant to the Plan. Such letter of transmittal shall specify that delivery of any MD Notes shall be effected, and that risk of loss and title thereto shall pass, only upon delivery of such MD Notes to the Exchange Agent in accordance with the terms and conditions of such letter of transmittal. Such letter of transmittal shall be in such form and have such other provisions as Debtors may reasonably require. It shall be a condition to receipt of any Distribution that the holder of MD Notes surrender or be deemed to have surrendered the MD Notes. The Exchange Agent shall issue shares to Holders of Class 5 Claims other than holders of MD Notes as directed by the Reorganized Debtors in accordance with the Plan.

(c) Lost or Stolen Notes. In addition to any requirements under the MD Indenture, or any related agreement, in the event any MD Notes shall have been lost, stolen or destroyed, then upon the delivery to the Exchange Agent of an affidavit attesting to the fact by the holder of the MD Note relating to such note, and the posting by such holder of a bond or the giving by such holder of an indemnity as may be reasonably required by the Reorganized Debtors as indemnity against any claim that may be made against either of them with respect to such MD Note, the Exchange Agent shall distribute the New MD Common Stock, and any dividends and other distributions with respect thereto, issuable or payable in exchange for such lost, stolen or destroyed MD Note pursuant to the provisions of the Plan. Upon compliance with this Article 8.2(3)(c) by a Holder of an Allowed Claim evidenced by a MD Note such Holder shall, for all purposes under the Plan, be deemed to have surrendered such MD Note.

(d) Failure to Surrender Canceled Notes. Any Holder of MD Notes that fails to surrender or is deemed to have failed to surrender any applicable MD Notes required to be delivered hereunder or fails to comply with the provisions of Article 8.2(3)(c) hereof, shall (i) within 180 days after the Effective Date, be entitled to look only to the Reorganized Debtors for their distributions under the Plan, or (ii) within one (1) year after the Effective Date, have its Claim for a distribution pursuant to the Plan on account of such MD Note discharged and be forever barred from asserting any such Claim against the Reorganized Debtors or their property. In the event a claim for a distribution pursuant to the Plan on account of such MD Note is discharged, such distribution shall vest in the Reorganized Debtors in accordance with Section 8.7 of the Plan.

(e) Distribution Record Date. As of the close of business on the Distribution Record Date, the respective transfer books and records for the MD Notes as maintained by the Indenture Trustee or its agents, shall be closed and any transfer of MD Notes or any interest therein shall be prohibited. The Reorganized Debtors, the Exchange Agent, the Indenture Trustee and their respective agents shall have no obligation to recognize the transfer of any MD Notes occurring after the Distribution Record Date, and shall be entitled for all

purposes herein to recognize and deal only with those Holders of record as of the close of business on the Distribution Record Date irrespective of the number of distributions to be made under the Plan or the date of such distributions.

(f) Unregistered Transfers. In the event of a transfer of ownership of an MD Note that is not registered in the respective transfer books and records of the Indenture Trustee, the property to be distributed to the holder of the MD Notes with respect to such Claim shall be delivered to the holder of record on the Distribution Record Date unless the transferee of such holder delivers an executed letter of transmittal to the Exchange Agent, in form satisfactory to the Exchange Agent, accompanied by such documents as are required to evidence and effect such transfer and to evidence that all applicable transfer taxes have been paid.

(g) New MD Common Stock Issued in Different Name. If any New MD Common Stock is to be issued or distributed in a name other than that in which the MD Note surrendered in exchange therefor is registered, it shall be a condition of such exchange that (i) the MD Note so surrendered shall be transferable, and shall be properly assigned and endorsed, (ii) such transfer shall otherwise be proper and (iii) the Holder requesting such transfer shall pay all transfer or other taxes payable by reason of the foregoing and establish to the satisfaction of the Exchange Agent that such taxes have been paid.

(h) Distributions With Respect to Unexchanged MD Notes. Whenever a dividend or other distribution is declared with respect to New MD Common Stock, and the payment date or the record date for such distribution, as applicable, is on or after the Effective Date, such payment or distribution shall be made to the person to whom the New MD Common Stock is issuable and shall include dividends or other distributions with respect to all shares of New MD Common Stock, issuable or distributable pursuant to the Plan. No payments or dividends or other distributions with respect to New MD Common Stock, as applicable, shall be paid to any holder of any unsurrendered MD Note until the same is surrendered for exchange in accordance with the provisions of this Article 8.2. Subject to applicable law, following the surrender of any MD Note, there shall be issued or distributed to the Holder of such MD Note and certificates representing shares of New MD Common Stock issued or distributed in exchange therefore, together with the dividends or other distributions payable with respect to such shares of New MD Common Stock. For purposes of dividends or other distributions with respect to shares of New MD Common Stock, all such shares to be issued or distributed pursuant to the Plan shall be deemed issued and distributed as of the Effective Date.

(i) Voting With Respect to Unexchanged MD Notes. Subject to the provisions of Article 8.2(3)(d) hereof, at any meeting of stockholders of New MD Common Stock with a record date on or after the Effective Date, registered holders of unsurrendered MD Notes shall be entitled to vote the number of shares of New MD Common Stock represented by such MD Notes, regardless of whether such holders have exchanged their MD Notes; provided, that any such

vote shall be at the times, upon the conditions, and in the manner prescribed by the New MD Charter and New MD Bylaws.

(j) Hart-Scott-Rodino Compliance. Any shares of New MD Common Stock to be distributed under the Plan to any entity required to file a Premerger Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall not be distributed until the notification and waiting periods applicable under such Act to such entity shall have expired or been terminated.

(k) Minimum Distributions. No payment of Cash less than \$25 shall be made by the Debtors or Reorganized Debtors to any holder of a Claim.

(l) Fractional Shares. No fractional shares of New MD Common Stock, or Cash in lieu thereof, shall be distributed under the Plan. When any distribution pursuant to the Plan on account of an Allowed Claim or would otherwise result in the issuance of a number of shares of New MD Common Stock that is not a whole number, the actual distribution of shares of New MD Common Stock shall be rounded as follows: (i) fractions of $\frac{1}{2}$ or greater shall be rounded to the next higher whole number; and (ii) fractions of less than $\frac{1}{2}$ shall be rounded to the next lower whole number. The total number of shares of New MD Common Stock to be distributed to holders of Allowed Claims shall be adjusted as necessary to account for the rounding provided in this Article 8.2(3)(l).

(m) Distributions to Holders of Unsecured Claims Other Than Unsecured Claims Arising Under MD Notes. All distributions of New MD Common Stock provided for in the Plan on account of Allowed Unsecured Claims other than distributions made on account of MD Note Claims shall be made by the Reorganized Debtors by the issuance to the Exchange Agent of the number of shares of New MD Common Stock distributable to holders of Unsecured Claims other than MD Note Claims. The Exchange Agent shall distribute the New MD Common Stock to the Holders of Allowed Unsecured Claims. No distribution shall be made unless and until the Unsecured Claim becomes an Allowed Claim.

(n) Disputed Claim Reserve and Distribution Thereof. On the Effective Date, the Debtors shall reserve from distribution a number of shares of New MD Common Stock equal to the number of shares of New MD Common Stock that would be distributed to Holders of Contested Class 6 Claims if such Claims were Allowed Claims (the "Reserved Shares"). The Reserved Shares will be distributed to the Holders of Contested Claims to the extent such Claims become Allowed Claims in accordance with the provisions of Article 9 and to the extent such Contested Claims are Allowed for an amount less than the amount for which New MD Common Stock was reserved, to the other Holders of Allowed Class 6 Claims and at the times provided for in Article 8.3(c).

8.3. Undeliverable and Unclaimed Distributions.

(a) Delivery of Distributions. All property under the Plan to be distributed by mail shall be sent to the latest mailing address, filed with the Bankruptcy Court for the party entitled thereto, or, if no such mailing address has been so filed, the mailing address reflected in the Debtors' books and records. If as of the Distribution Record Date, the Indenture Trustee is the holder of record of the global note issued pursuant to the Indenture, which global note represents all of the MD Notes, Distributions on account of the MD Notes shall be made to the Indenture Trustee and all such distributions shall be deemed complete when delivered to the Indenture Trustee.

(b) Undeliverable Distributions. If any distribution to the Holder of an Allowed Claim is returned as undeliverable, no further distributions shall be made to such Holder unless and until the Reorganized Debtors are notified in writing of such Holder's then-current address. Undeliverable distributions made by the Reorganized Debtors or the Exchange Agent shall be returned to the Reorganized Debtors and shall remain in the possession of the Reorganized Debtors pursuant to this Article 8.3(b) until such time as a distribution becomes deliverable. The Reorganized Debtors shall have no obligation to attempt to locate any Holder with regard to whom a distribution has been returned as undeliverable, forwarding time expired or similar indication. Undeliverable distributions shall not be entitled to any interest, dividends or other accruals of any kind.

(c) Distributions After the Effective Date. Within twenty (20) days after the end of each six-month anniversary following the Effective Date, the Reorganized Debtors shall make all distributions, as provided herein or in the Confirmation Order, that become deliverable during the preceding six months, including payments to (a) Holders of Allowed Claims who become entitled to additional distributions as a result of the disallowance or reduction of a Contested Claim, and (b) Holders of Contested Claims that become Allowed Claims, provided however, if less than 50,000 shares of New MD Common Stock are available for distribution, the Reorganized Debtors shall not be required to make a Subsequent Distribution unless such distribution will be the final distribution.

(d) Failure to Claim Undeliverable Distributions. The Reorganized Debtors shall file with the Bankruptcy Court, on each anniversary following the Effective Date and prior to the time the Chapter 11 Cases are closed, a listing of the Holders of unclaimed distributions. This list shall be maintained until the entry of an order and/or Final Decree concluding the Chapter 11 Cases. Any Holder of an Allowed Claim that does not assert a Claim pursuant to the Plan for an undeliverable distribution within one year after the Effective Date for distributions made on or about the Effective Date and with respect to distributions to be made under Section 8.2(3), one year after the date of such a subsequent distribution, shall have its Claim for such undeliverable distribution discharged and shall be forever barred from asserting any such Claim against the Reorganized Debtor or its property. In such cases: (i) any Cash held for

distribution on account of such Claims shall be property of the Reorganized Debtors, free of any restrictions thereon; and (ii) any New MD Common Stock held for distribution on account of such Claims shall be canceled and of no further force or effect. Nothing contained in the Plan or Confirmation Order shall require the Reorganized Debtors, the Exchange Agent, the Indenture Trustee or the disbursing agents to attempt to locate any Holder of an Allowed Claim or Allowed Interest.

8.4. Withholding Taxes and Allocation of Distributions.

In connection with the Plan, to the extent applicable, the Reorganized Debtors shall comply with all tax withholding and reporting requirements imposed on them by any governmental unit, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. Notwithstanding any other provision of this Plan, each Person or entity that has received any distribution pursuant to the Plan shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligation imposed by any governmental unit, including income, withholding and tax obligations, on account of such distribution. For federal income tax purposes, a Distribution will be allocated to the principal amount of a Claim first and then, to the extent the Distribution exceeds the principal amount of the Claim to the portion of the Claim representing accrued but unpaid interests.

8.5. Compensation and Reimbursement to Exchange Agent for Services Related to Distributions.

The Exchange Agent providing services related to distributions pursuant to the Plan shall receive from the Reorganized Debtors, without further Bankruptcy Court approval, reasonable compensation for such services and reimbursement of reasonable out-of-pocket expenses incurred in connection with such services. These Payments shall be made on terms agreed to with the Reorganized Debtors.

8.6. Setoffs.

The Reorganized Debtors may, pursuant to Section 553 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any Allowed Claim and the distributions to be made pursuant to the Plan on account of such Claim (before any distribution is made on account of such Claim), the claims, rights and Causes of Action of any nature that the Debtors or the Reorganized Debtors may hold against the Holder of such Allowed Claim; provided that neither the failure to effect such a setoff nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors or the Reorganized Debtors of any such claims, rights and Causes of Action that the Debtors or the Reorganized Debtors may possess against such Holder; and provided further that the Debtors waive any and all rights of set-off under Section 553 of the Bankruptcy Code or otherwise that they may have as to the Tranche A Secured Claims, Tranche B Secured Claims, the Prepetition Sealy Supply Agreement Claim, the DIP Credit Agreement, the Sealy Exit Facility and the Exit DIP Facility, and as to any Released Claim.

8.7. Escheat.

Any Distribution that would otherwise be made to the holder of an Allowed Claim or Equity Interest under the Plan that has not been made because of (a) the failure to timely provide the Debtors with a corrected address in respect of a returned Distribution pursuant to Article 8.3(c) hereof, or (b) the failure to submit a claim with respect to an unnegotiated check within 180 days of the date of such check, shall revert and escheat to the applicable Debtor and the holder of such Allowed Claim shall have no right to receive any further Distribution under the Plan.

8.8. Trustee Fees and Expenses.

Ten days prior to the Effective Date, the Indenture Trustee will submit to the Debtors appropriate documentation in support of the reasonable fees and expenses incurred by the Indenture Trustee through that date (including any estimated fees and expenses through the Effective Date), whether incurred prior to or subsequent to the Petition Date, together with a detailed, reasonable estimate of any fees and expenses to be incurred thereafter. Such estimate may include, without limitation, projected fees and expenses relating to surrender and cancellation of notes and distribution of securities. On or prior to the Effective Date, the Debtors or Reorganized Debtors will pay up to \$50,000 of the undisputed amount of the Indenture Trustee's fees and expenses. No later than 30 days after the Effective Date, or as soon thereafter as may be practical, the Indenture Trustee will deliver to Reorganized Debtors a final invoice for its reasonable fees and expenses. Reorganized Debtors will have a period of 30 days after receipt to review the final invoice and provide the Indenture Trustee with any objection to the final invoice, stating with specificity their objections to particular charges. If no objection is received by the Indenture Trustee within 30 days after the Indenture Trustee provided Reorganized Debtors with its final invoice, then the Indenture Trustee shall be paid such amount without the need for any further approval of the Bankruptcy Court provided that the total of all payments made to the Indenture Trustee as contemplated by this Section 8.8 does not exceed \$50,000. If Reorganized Debtors timely advise the Indenture Trustee in writing that they object to all or a portion of such fees, which objection states with specificity their objection to particular charges, (i) Reorganized Debtors shall pay the undisputed portion of the fees and expenses and (ii) the disputed portion of the fees and expenses will be submitted to the Bankruptcy Court for resolution. The Indenture Trustee will not be required to file a fee application or to comply with guidelines and rules applicable to a fee application, and will not be subject to Sections 330 or 503(b) of the Bankruptcy Code. In no event shall the Debtors be required to pay the fees and expenses of the Indenture Trustee and any professionals retained by the Indenture Trustee in an amount in excess of \$50,000.

ARTICLE IX.

PROCEDURES FOR RESOLVING AND TREATING CONTESTED CLAIMS

9.1. Objection Deadline.

As soon as practicable, but in no event later than ninety (90) days after the Effective Date (subject to being extended by the Bankruptcy Court upon motion of the Debtors without notice or a hearing), objections to Claims shall be filed with the Bankruptcy Court and served upon the holders of each of the Claims to which objections are made. After the occurrence of the Effective Date, only the Debtors may prosecute or settle an objection to a Claim.

9.2. Prosecution of Contested Claims.

The Debtors may object to the allowance of Claims filed with the Bankruptcy Court with respect to which liability is disputed in whole or in part other than the Prepetition Sealy Trade Claim and other than Claims which are Allowed by the terms of the Plan or other Final Order of the Bankruptcy Court. All objections that are filed and prosecuted as provided herein shall be litigated to Final Order or compromised and settled in accordance with Section 9.3 of the Plan.

9.3. Claims Settlement Guidelines.

Notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, from and after the Effective Date all Claims and all claims that any of the Debtors have asserted against other parties may be compromised and settled according to the following procedures:

(a) Subject to subsection 9.3(b) hereof, the following settlements or compromises do not require the review or approval of the Bankruptcy Court or any other party in interest:

(i) The settlement or compromise of a Claim pursuant to which such Claim is Allowed in an amount of \$20,000 or less; and

(ii) The settlement or compromise of a Claim where the difference between the amount of the Claim listed on the Schedules and the amount of the Claim proposed to be Allowed under the settlement is \$20,000 or less; and

(b) The following settlements or compromises shall be submitted to the Bankruptcy Court for approval:

(i) Any settlement or compromise not described in subsection 9.3(a) hereof; and

(ii) Any settlement or compromise of a Claim or a claim asserted by one or more of the Debtors that involves an "insider," as defined in section 101(31) of the Bankruptcy Code; and

(c) The Proponents and the DIP Lenders shall be given notice of any proposed settlement or compromise pursuant to subsection 9.3(b) hereof.

9.4. Estimation of Claims.

The Debtors may, at any time, request that the Bankruptcy Court estimate any Contested Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any Contested Claim, that estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Debtors may elect to pursue any supplemental proceedings to object to any ultimate payment on such Claim. All of the objection, estimation, settlement, and resolution procedures set forth in the Plan are cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

ARTICLE X.

RETENTION OF JURISDICTION

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Bankruptcy Court shall retain and shall have exclusive jurisdiction over any matter (a) arising under the Bankruptcy Code, (b) arising in or related to the Chapter 11 Cases or the Plan, or (c) that relates to the following:

(i) To hear and determine any and all motions or applications pending on the Confirmation Date or thereafter brought for the assumption and/or assignment or rejection of executory contracts or unexpired leases to which any of the Debtors is a party or with respect to which any of the Debtors may be liable, and to hear and determine any and all Claims resulting therefrom or from the expiration or termination of any executory contract or unexpired lease;

(ii) To determine any and all adversary proceedings, applications, motions, and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by the Disbursing Agent, the Debtors.

(iii) To hear and determine any objections to the allowance of Claims, whether filed, asserted, or made before or after the Effective Date, including, without express or implied limitation, to hear and determine any objections to the classification of any Claim and to allow, disallow or estimate any Contested Claim in whole or in part;

(iv) To issue such orders in aid of execution of the Plan to the extent authorized or contemplated by section 1142 of the Bankruptcy Code;

(v) To consider any modifications of the Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

(vi) To hear and determine all Fee Applications;

(vii) To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with the Plan (and all documents, instruments, agreements, schedules, and exhibits thereto) or its interpretation, implementation, enforcement, or consummation;

(viii) To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with the Confirmation Order (and all exhibits to the Plan) or its interpretation, implementation, enforcement, or consummation;

(ix) To the extent that Bankruptcy Court approval is required, to consider and act on the compromise and settlement of any Claim or Cause of Action by or against the Debtors' estates;

(x) To determine such other matters that may be set forth in the Plan, or the Confirmation Order, or that may arise in connection with the Plan, or the Confirmation Order;

(xi) To hear and determine matters concerning state, local, and federal taxes, fines, penalties, or additions to taxes for which the Debtors may be liable, directly or indirectly, in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(xii) To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with any setoff and/or recoupment rights of the Debtors or any Person;

(xiii) To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with Causes of Action of the Debtors commenced by the Debtors before or after the Effective Date;

(xiv) To enter an order or final decree closing the Chapter 11 Cases;

(xv) To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(xvi) To issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any

Person with consummation, implementation or enforcement of the Plan or the Confirmation Order; and

(xvii) To hear and determine any other matters related hereto and not inconsistent with chapter 11 of the Bankruptcy Code.

ARTICLE XI.

MISCELLANEOUS PROVISIONS

11.1. Payment of Statutory Fees.

All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the hearing on confirmation of the Plan, shall be paid by the Debtors on or before the Effective Date. Any such fees accrued after the Effective Date will constitute an Allowed Administrative Claim and be treated in accordance with Section 5.1 of the Plan.

11.2. Discharge of the Debtors.

The rights afforded in the Plan and the treatment of all Claims and Equity Interests herein shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued thereon from and after the Petition Date, against the Debtors and the Debtors in Possession, or any of their Estates or Assets. Except as otherwise provided herein, on the Effective Date, all Claims against and Equity Interests in the Debtors and the Debtors in Possession shall be satisfied, discharged, and released in full. The Debtors shall not be responsible for any obligations of the Debtors or the Debtors in Possession except those expressly assumed by any of the Debtors in the Plan. Except as otherwise provided herein, all Persons shall be precluded and forever barred from asserting against the Debtors, their respective successors or assigns, or their Assets, any other or further Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not the facts of or legal bases therefore were known or existed prior to the Effective Date.

11.3. Third Party Agreements; Subordination.

The Distributions to the various classes of Claims hereunder shall not affect the right of any Person to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights. All of such rights and any agreements relating thereto shall remain in full force and effect. Distributions under the Plan shall be subject to and modified by any Final Order directing distributions other than as provided in the Plan. In accordance with section 510(b) of the Bankruptcy Code, a Claim arising from rescission of a purchase or sale of a security of the Debtors or of an Affiliate of the Debtors, for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such Claim, shall be subordinated to all Claims that are senior to or equal to the Claim or Equity Interest represented by such security, except that if such security is common stock, such Claim has the

same priority and treatment as such common stock and the holders of such Claims will neither receive or retain any property under the Plan except as provided in Section 4.1.

11.4. Exculpation.

The Debtors and their respective current officers (in place immediately prior to the Petition Date), employees, advisors, attorneys, and agents and the Official Committee, its members, advisors and attorneys and the Released Persons shall (a) neither have nor incur any liability to any Person for any act or omission in connection with or arising out of the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct as determined by Final Order of the Bankruptcy Court, provided however, that nothing herein shall relieve an attorney of liability for his or her malpractice, and (b) in all respects, be entitled to rely upon the advice of counsel and all information provided by other exculpated persons herein without any duty to investigate the veracity or accuracy of such information with respect to their duties and responsibilities under the Plan.

11.5. Notices.

Any notices, requests, and demands required or permitted to be provided under the Plan, in order to be effective, shall be in writing (including, without express or implied limitation, by facsimile transmission), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

Mattress Discounters
9822 Fallard Court
Upper Marlboro, MD 20773
Attn: President
Fax: 301-856-4591

with a copy to:

Hale and Dorr LLP
60 State Street
Boston, MA 02109
Attn: Mark N. Polebaum, Esq.
Fax: 617-526-5000

Jones Day Reavis & Pogue
222 East 41st Street
New York, NY 10017
Attn: Richard Engman, Esq.
Fax: 212-755-7306

Ropes & Gray
One International Place
Boston, MA 02110

Attn: William McCarthy, Esq.
Fax: 617-951-7050

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attn: Kathrine McLendon Esq.
Fax: 212-455-2502

11.6. Headings.

The headings used in the Plan are inserted for convenience only, and neither constitutes a portion of the Plan nor in any manner affect the construction of the provisions of the Plan.

11.7. Governing Law.

Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and the Bankruptcy Rules), the laws of the State of New York, without giving effect to the conflicts of laws principles thereof, shall govern the construction of the Plan and any agreements, documents, and instruments executed in connection with the Plan, except as otherwise expressly provided in such instruments, agreements or documents.

11.8. Expedited Determination.

The Disbursing Agent, with respect to property held by the Disbursing Agent pending the Final Distribution Date is hereby authorized to file a request for expedited determination under section 502(b) of the Bankruptcy Code for all tax returns filed with respect thereto.

11.9. Notice of Entry of Confirmation Order and Relevant Dates.

Promptly upon the occurrence of the Effective Date, the Debtors shall publish as directed by the Bankruptcy Court and serve on all known parties in interest and holders of Claims, notice of the entry of the Confirmation Order and all relevant deadlines and dates under the Plan, including, but not limited to, the deadline for filing notice of Administrative Claims (Section 5.1 hereof), and the deadline for filing rejection damage claims (Section 11.3 hereof).

11.10. No Interest or Attorneys' Fees.

Except as expressly stated in the Plan, or as allowed by the Bankruptcy Court, no interest, penalty or late charge arising after the Petition Date, and no award or reimbursement of attorneys fees or related expenses or disbursements, shall be allowed on, or in connection with, any Claim.

11.11. Modification of the Plan.

As provided in section 1127 of the Bankruptcy Code, modification of the Plan may be proposed in writing by the Proponents (with the prior approval of the DIP Lenders and the

Tranche A Lenders) at any time before confirmation, provided that the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the Debtors shall have complied with section 1125 of the Bankruptcy Code. The Proponents (with the prior approval of the DIP Lenders and the Tranche A Lenders) may modify the Plan at any time after confirmation and before substantial consummation, provided that the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan as modified, under section 1129 of the Bankruptcy Code, and the circumstances warrant such modifications. A holder of a Claim that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such holder changes its previous acceptance or rejection.

11.12. Revocation of Plan.

The Proponents jointly reserve the right to revoke and withdraw the Plan (with the prior approval of the DIP Lenders and the Tranche A Lenders) as to any Debtor prior to the occurrence of the Effective Date. If the Proponents revoke or withdraw the Plan (with the prior approval of the DIP Lenders and the Tranche A Lenders) as to any Debtor, or if the Effective Date of the Plan does not occur as to any Debtor, then, as to such Debtor the Plan and all settlements set forth in the Plan shall be deemed null and void and nothing contained herein shall be deemed to constitute a waiver or release of any Claims against or equity interests in such Debtor or to prejudice in any manner the rights of the Debtors or any Person in any other further proceedings involving such Debtor.

11.13. Subordination/Avoidance Rights Against the Debtors.

All Claims against the Debtors, based upon any claimed subordination rights against the Debtors or rights to avoid payments or transfers of property by the Debtors pursuant to any provision of the Bankruptcy Code or other applicable law, shall be deemed satisfied as to the Debtors by the distributions under the Plan to holders of Allowed Claims having such subordination rights and any rights to avoid payments or transfers of property.

11.14. Transfer Taxes.

Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of promissory notes, equity securities, or other instruments under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including, without limitation, any merger agreements or agreements of consolidation, deeds, bills of sale, or assignments executed in connection with any of the transactions contemplated under the Plan shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

11.15. Dissolution of the Committee.

Upon the occurrence of the Effective Date, the Committee shall be dissolved and shall cease to exist for any purpose.

11.16. Compliance with All Applicable Laws.

If notified by any governmental authority that it is in violation of any applicable law, rule, regulation, or order of such governmental authority relating to its businesses, the Debtors shall take whatever action as may be required to comply with such law, rule, regulation, or order; provided, that nothing contained herein shall require such compliance if the legality or applicability of any such requirement is being contested in good faith, and, if appropriate, an adequate reserve for such requirement has been set aside.

11.17. Injunctions.

On the Effective Date, except as hereafter provided, all Persons who have been, are, or may be holders of Claims against or Equity Interests in the Debtors shall be enjoined from taking any of the following actions against or affecting MD, the DIP Lenders, the Tranche A Lenders, the Proponents, the Estates or the Assets, or any of their respective current officers (in place immediately prior to the Petition Date), directors (in place immediately prior to the Petition Date), employees, agents, or related, representatives, members, advisors, or attorneys or their respective assets and property with respect to such Claims or Equity Interests:

- (a) commencing, conducting or continuing in any manner, directly or indirectly, any Cause of Action or other proceeding of any kind (including, without limitation, all Causes of Action, and proceedings that are pending as of the Effective Date, which must be withdrawn or dismissed with prejudice);
- (b) enforcing, levying, attaching, collecting or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree or order; and
- (c) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any encumbrance.

11.18. Binding Effect.

The Plan shall be binding upon and inure to the benefit of the Debtors, the holders of all Claims and Equity Interests, and their respective successors and assigns. To the extent any provision of the Disclosure Statement may be inconsistent with the terms of the Plan, the terms of the Plan shall be binding and conclusive.

11.19. Severability.

SHOULD THE BANKRUPTCY COURT DETERMINE THAT ANY PROVISION OF THE PLAN IS UNENFORCEABLE EITHER ON ITS FACE OR AS APPLIED TO ANY CLAIM OR EQUITY INTEREST OR TRANSACTION, THE PROONENTS MAY MODIFY THE PLAN (WITH THE PRIOR APPROVAL OF THE DIP LENDERS) IN ACCORDANCE WITH SECTION 11.14 OF THE PLAN SO THAT SUCH PROVISION SHALL NOT BE APPLICABLE TO THE HOLDER OF ANY CLAIM OR EQUITY INTEREST. SUCH A DETERMINATION OF UNENFORCEABILITY SHALL NOT (A) LIMIT OR AFFECT THE ENFORCEABILITY AND OPERATIVE EFFECT OF ANY

**OTHER PROVISION OF THE PLAN OR (B) REQUIRE THE RESOLICITATION OF
ANY ACCEPTANCE OR REJECTION OF THE PLAN.**

ARENT FOX KINTNER PLOTKIN & KAHN, PLLC



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-and-

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Counsel for the Official Committee of Unsecured Creditors


Dated: January 8, 2003

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Fax: (212) 755-7306

Counsel for the Official Committee of Unsecured Creditors

Exhibit A

NAME	ADDRESS 1	ADDRESS 2	ADDRESS 3	CITY	STATE	ZIP	DESCRIPTION	CURE AMTS
Bay Logistics Inc.	Attn: Thomas Martin	105 Digital Drive		Novato	CA	94949	Software License Agreement	0.00
Carefirst Blue Cross Blue Shield	Attn: Charlene Guessford Kline	5500 12th Street SW		Washington	DC	20005	Medical Insurance Policy	0.00
Ceridian Benefits Services		P.O. Box 402610		Atlanta	GA	30384-2610	Benefit Services Agreement	0.00
Cigna Group Insurance Life Insurance Company of America	Attn: Jack Abel	1601 Chestnut Street		Philadelphia	PA	19192	Business Travel Insurance Policy	0.00
Cimatech	Boimar Drive			Pittsburgh	PA	15205	HVAC Service Contract	0.00
COBRASrv National Service Center		3201 24th Street South		St. Petersburg	FL	33711	COBRA Policy	758.25
Cummins Power Systems, Inc.	1907 Park 100 Drive			Glen Burnie	MD	21061-9630	Power Generator Maintenance Agreement	0.00
Delta Dental	Attn: Tony Pease	One Delta Drive		Mechanicsburg	PA	17055	Dental Insurance Policy	0.00
Dominion Service Co	2635 Goodies Bridges Rd			Richmond	VA	23224	HVAC Service Contract	0.00
Equifax Check Services, Inc.	11801 Roosevelt Boulevard			Saint Petersburg	FL	33716-0000	Check Authorization Agreement	0.00
Equifax Risk Management Services	11801 Roosevelt Boulevard			Saint Petersburg	FL	33716-0000	Collection Services Agreement	0.00
First Union Capitol Management Group	Attn: Ella Smith	1525 West W. T. Harris Blvd		Charlotte	NC	28289-1178	401(k) Plan Administration Agreement	0.00
International Business Machines Corporation	7100 Highlands Pkwy			Smyrna	GA	30082-0000	Service Contract (maintenance AS 400)	3,570.84
International Business Machines Corporation	7100 Highlands Pkwy			Smyrna	GA	30082-0000	Disaster Recovery Agreement	2,075.00
Jeterson Pilot Financial Insurance Inc.	Attn: Brian LeBlanc	8801 Julian Hills Drive		Omaha	NE	68114-4066	Life Insurance and LTD Policy	0.00
Kaiser Foundation Health Plan, Inc.	Southern California Division	Attn: Sonya Jimenez	200 North Lewis Street	Orange	CA	92668	Medical Insurance Policy	0.00
Kaiser Foundation Health Plan, Inc.	Northern California Division	Attn: Rita Erickson	1800 Harrison Street, 13th Floor	Oakland	CA	94612-3412	Medical Insurance Policy	0.00
Lee Technologies, Inc.	12150 Monument Drive	Suite 150		Fallfax	VA	22033	UPS System Maintenance Agreement	0.00
Marsh, Inc.	1255 23rd Street, NW	Suite 400		Washington	DC	20037	Client Service Insurance Contracts	0.00
Mattress World, Inc.	6648 South Narragansett	Attn: Tom Sayore		Bedford	IL	60638-0000	License Agreement	n/a
Mattress World, Inc.	6648 South Narragansett			Bedford Park	IL	60638-0000	Supply Agreement	n/a
Monolith Corp.	5275 Capital Boulevard			Raleigh	NC	27616	IS Contract	0.00
Muzak LLC	3318 Lakemont Blvd.	Attn: Gary Stuller		Fort Mill	SC	29708-0000	In-store music and message service contract	158.04
Pathfinder Logistics Solutions	1489 Baltimore Pike	Suite 217		Springfield	PA	19804	IS Contract	0.00
PTM Courier, Inc.	Attn: Paul McGee	51 Pond Street	Suite 20	Waltham	MA	02451	Delivery Service Contract	21,697.94
Qwest Communications Corporation	555 17th Street	Attn: Valerie Berezak		Denver	CO	80202-0000	Guaranteed Term Agreement (data and phone lines)	0.00
Rite Way Builders	123 Taunton Ave			Newton	MA	02786	Snow Removal Agreement	0.00
Royal and SunAlliance	Attn: Monica Taylor	300 East Lombard Street Suite 700		Baltimore	MD	21202	Workers Compensation/Automobile and General Liability Insurance Policies	2,882.24
Scott's Lawn Service	11 Suntop Court			Baltimore	MD	21209	Snow Removal Agreement	0.00

NAME	ADDRESS 1	ADDRESS 2	ADDRESS 3	CITY	STATE	ZIP	DESCRIPTION	CURE AMTS
Sioris Management Systems	300 Littleton Road			Parsippany	NJ	07054-0000	Sublicense Agreement-Software Contact	12,611.30
Technology Leasing Concepts, Inc.	401 Southlake Boulevard, Suite 01A			Richmond	VA	23236-0000	Master Lease	0.00
Telephonics, Inc.	4330 NW 207th Drive			Miami	FL	33055	Voice Mail System Agreement	0.00
The Blackstone Group, L.P.	345 Park Avenue			New York	NY	10154-0000	Blackstone Financial Advisory Agreement	0.00
The Blackstone Group, L.P.	345 Park Avenue			New York	NY	10154-0000	Blackstone Indemnification Agreement	n/a
The Bureau of National Affairs, Inc.	1221 25th Street, N.W.			Washington	DC	20037	Trade Publication Updates Agreement	0.00
Vantura System-Source, Inc.	201 E. Baltimore Street #1400			Baltimore	MD	21202	Hardware and Software Support Agreement	0.00
VeriSign, Inc.	21555 Ridgestop Circle	Attn: Legal Department		Dulles	VA	20168-0000	Service Agreement for Web Site	75.00
Anne K. Pepper	43 Providence Court			Princeton Junction	NJ	08550-0000	Employment Agreement	0
Christopher P. Stabile	4910 Kilburn St.			Alexandria	VA	22304-0000	Employment Agreement	0
Colin S. Herley	1465 Colesville Road			Bethahem	PA	18015-0000	Employment Agreement	0
Kevin W. Etheridge	2711 Ice House Road, #104			Alexandria	VA	22314-0000	Employment Agreement	0
Michael C. Eppinger	1680 Wickham Way			Crofton	MD	21114-0000	Employment Agreement	0
Rick P. Frier	9928 Browns Mill Road			Vienna	VA	22182-0000	Employment Agreement	0
Robert D. Gorney	8812 Locust Street			Waldorf	MD	20603-0000	Employment Agreement	0
Steve J. Newton	3732 Blackacuate Way			Marietta	GA	30062-0000	Employment Agreement	0
							Total	43,828.61

Exhibit B

SUMMARY OF TERMS AND CONDITIONS
MATTRESS DISCOUNTERS CORPORATION
MD LENDER, INC.

\$3,000,000 Junior Secured Term Loan

Borrower: MDC

Lender: MD Lender

DIP Term Loan: \$3,000,000 plus accrued and unpaid interest under the Post-Petition Credit and Security Agreement among MDC, MD Lender, Sealy Mattress Company ("Sealy"), and T.J.B., Inc. ("T.J.B.") (the "DIP Credit Agreement") (the "DIP Term Loan")

Amortization: Commencing March 31, 2005, quarterly amortization payments, each in the amount of \$400,000, with balance due on Final Maturity Date

Final Maturity Date: October 31, 2006

Closing: On the Effective Date (as defined in the Plan of Reorganization) (defined below), subject to the Conditions Precedent and other conditions set forth herein (the "Closing Date")

Interest Rate and Interest Periods: Same as provided in the post-petition senior credit facility of MDC containing the Specified Senior Terms (as defined in the Settlement Agreement) (the "New Senior Facility")

Interest Payments: Same as New Senior Facility

(a)

(b) THE DIP TERM LOAN

Term Loan Funding:

The DIP Term Loan will be fully funded on the Closing Date.

(b) Voluntary Prepayments:

MDC may prepay all or any portion of the DIP Term Loan upon prior written notice without penalty.

Mandatory Prepayments:

Following the payment in full of the New Senior Facility, repayments of DIP Term Loan required with (i) 100% of net proceeds from asset sales and (ii) excess cash flow on same formula as provided in the New Senior Facility.

Conditions Precedent to Effectiveness:

In addition to conditions precedent to closing typical for this type of term loan and appropriate in the context of the proposed transaction, other conditions precedent (to be satisfied in the sole discretion of MD Lender) will include, but are not limited to:

- 1) The Settlement Agreement among MDC, MD Lender, Sealy and the other parties thereto (the "Settlement Agreement") and all of the transactions contemplated thereby shall have been approved by the Bankruptcy Court for the District of Maryland, Greenbelt Division (the "Bankruptcy Court"), in the consolidated case of MDC and T.J.B., and such approval shall be in full force and effect, all in accordance with the terms and conditions of the Settlement Agreement.
- 2) The definitive documentation relating to (i) the New Senior Facility and (ii) the rollover of Sealy's participation in Tranche B of the Existing Senior Credit Agreement (as defined in the Settlement Agreement) (the "Sealy Term Loan") shall be acceptable to MD Lender in its sole discretion.
- 3) The Plan of Reorganization of MDC and T.J.B. having the terms set forth in the Settlement Agreement (the "Plan of Reorganization"), including, without limitation, (a) the Specified Sealy Terms, (b) the Specified Exit DIP Facility Terms, (c) the Specified Senior Terms and (d) the Management Retention and Incentive Plan (as each is defined in the Settlement Agreement), and all documentation and agreements to effect the

foregoing, shall have been approved, executed and delivered by the parties thereto, and shall be in form and substance satisfactory to MD Lender.

- 4) All necessary governmental and third-party approvals (including, without limitation, Bankruptcy Court confirmation of the Plan of Reorganization) necessary in connection with the consummation of the DIP Term Loan and the Plan of Reorganization, and the transactions contemplated thereby, shall have been obtained and remain in full force and effect.
- 5) All costs, fees, expenses (including, without limitation, legal fees and expenses) and other compensation contemplated hereby payable to MD Lender shall have been paid to the extent due.
- 6) MD Lender shall have received a perfected security interest in all of the assets of MDC and T.J.B., junior in priority to the security interest of the Senior Lenders under the New Senior Facility, with rights and remedies of MD Lender with respect to foreclosure on such junior security interest subject to a standstill of remedies mutually acceptable to the Senior Lenders, MD Lender and Sealy.

Guarantee:

T.J.B will guarantee the payment of all obligations under the DIP Term Loan.

Representations and Warranties:

Customary for this type of term loan and appropriate in the context of the proposed transaction.

Financial Covenants:

Identical to those in the New Senior Facility.

Affirmative Covenants:

Identical to those in the New Senior Facility.

Negative Covenants:

Identical to those in the New Senior Facility.

Right to Appoint Observer:

Sealy and MD Lender will have the right to appoint one observer to the MDC Board of Directors (the "Lender Observer").

Events of Default:

Customary for term loan of this nature and appropriate in the context of the proposed transaction including, but not limited to:

- 1) Non-payment of principal, interest, fees and expenses and other amounts due under the DIP Term Loan;
- 2) If MDC shall hire or terminate its Chief Executive Officer or Chief Financial Officer (or persons performing similar functions regardless of title), without the prior consent of the Lender Observer (which consent may only be withheld in the exercise of the Lender Observer's good faith business judgment, applying the same standard as if such Lender Observer were subject to the fiduciary duties applicable to a disinterested director);
- 3) Cross-default to any of the (a) Assumed Supply Agreement (as defined in the Settlement Agreement), (b) the Sealy Term Loan, (c) the New Senior Facility, and certain other material agreements; and
- 4) Sale of MDC or T.J.B. or other transaction resulting in change of control.

Indemnification:

MDC and T.J.B. agree to indemnify and hold MD Lender and its respective shareholders, directors, officers, agents, subsidiaries, and affiliates harmless from and against any and all damages, losses, settlement payments, obligations, liabilities, claims, actions or causes of action, and reasonable costs and expenses incurred, suffered, sustained, or required to be paid by an indemnified party by reason of or resulting from the transactions contemplated hereby except to the extent resulting from the gross negligence or willful misconduct of the indemnified party. In all such litigation, or the preparation therefor, MD Lender shall be entitled to select its own counsel and, in addition to the foregoing indemnity, the MDC and T.J.B. agree to pay promptly the reasonable fees and expenses of such counsel.

(i) Expenses: *All reasonable and documented legal fees in connection with the closing of the transaction to be payable by MDC and T.J.B on the Closing Date.*

Loan Documentation:

This effectiveness of the DIP Term Loan will also be subject to the execution and delivery of mutually acceptable loan documentation, which will contain conditions precedent, representations and warranties, covenants, events of default and other provisions customary for loans of this nature, including, but not limited to those noted above.

Assignment:

MD Lender shall be permitted to assign its interest in the DIP Term Loan to affiliates.

Governing Law:

New York

Counsel to MD Lender:

Ropes & Gray

Exhibit C

SUMMARY OF TERMS AND CONDITIONS
MATTRESS DISCOUNTERS CORPORATION
SEALY MATTRESS COMPANY

\$12,500,000 Junior Secured Term Loan

<i>Borrower:</i>	MDC
<i>Lender:</i>	Sealy
<i>Sealy Term Loan:</i>	\$12,500,000 plus accrued and unpaid interest on Tranche B of the Existing Senior Credit Agreement, as defined in the Settlement Agreement (defined below) (the "Sealy Term Loan")
<i>Amortization:</i>	Commencing March 31, 2005, quarterly amortization payments, each in the amount of \$1,250,000, until Final Maturity Date
<i>Final Maturity Date:</i>	October 31, 2006
<i>Closing:</i>	On the Effective Date (as defined in the Plan of Reorganization) (defined below), subject to the Conditions Precedent and other conditions set forth herein (the "Closing Date")
<i>Interest Rate and Interest Periods:</i>	Same as provided in the post-petition senior credit facility of MDC containing the Specified Senior Terms (as defined in the Settlement Agreement) (the "New Senior Facility")
<i>Interest Payments:</i>	Same as New Senior Facility
<i>Term Loan Funding:</i>	The Sealy Term Loan will be fully funded on the Closing Date.
(c) Voluntary Prepayments:	<i>MDC may prepay all or any portion of the Sealy Term Loan upon prior written notice without penalty.</i>

Mandatory Prepayments:

Following the payment in full of the New Senior Facility, repayments of Sealy Term Loan required with (i) 100% of net proceeds from asset sales and (ii) excess cash flow on same formula as provided in the New Senior Facility.

Conditions Precedent to Effectiveness:

In addition to conditions precedent to closing typical for this type of term loan and appropriate in the context of the proposed transaction, other conditions precedent (to be satisfied in the sole discretion of Sealy) will include, but are not limited to:

- 4) The Settlement Agreement among MDC, Sealy and the other parties thereto (the "Settlement Agreement") and all of the transactions contemplated thereby shall have been approved by the Bankruptcy Court for the District of Maryland, Greenbelt Division (the "Bankruptcy Court"), in the consolidated case of MDC and T.J.B., Inc., a Maryland corporation ("T.J.B."), and such approval shall be in full force and effect, all in accordance with the terms and conditions of the Settlement Agreement.
- 5) The definitive documentation relating to (i) the New Senior Facility and (ii) the DIP Loan (defined below) shall be acceptable to Sealy in its sole discretion.
- 6) The Plan of Reorganization of MDC and T.J.B. having the terms set forth in the Settlement Agreement (the "Plan of Reorganization"), including, without limitation, (a) the Specified Sealy Terms, (b) the Specified Exit DIP Facility Terms, (c) the Specified Senior Terms and (d) the Management Retention and Incentive Plan (as each is defined in the Settlement Agreement), and all documentation and agreements to effect the foregoing, shall have been approved, executed and delivered by the parties thereto, and shall be in form and substance satisfactory to Sealy.
- 4) All necessary governmental and third-party approvals (including, without limitation, Bankruptcy Court confirmation of the Plan of

Reorganization) necessary in connection with the consummation of the Sealy Term Loan and the Plan of Reorganization, and the transactions contemplated thereby, shall have been obtained and remain in full force and effect.

- 5) All costs, fees, expenses (including, without limitation, legal fees and expenses) and other compensation contemplated hereby payable to Sealy shall have been paid to the extent due.
- 6) Sealy shall have received a perfected security interest in all of the assets of MDC and T.J.B., junior in priority to (i) the security interest of the Senior Lenders under the New Senior Facility, and (ii) the security interest of MD Lender, Inc., a Delaware corporation ("MD Lender") under the post-petition term loan of MD Lender having the Specified Exit DIP Facility Terms (the "DIP Loan"), with rights and remedies of Sealy with respect to foreclosure on such junior security interest subject to a standstill of remedies mutually acceptable to the Senior Lenders, MD Lender and Sealy.

Guarantee:

T.J.B will guarantee the payment of all obligations under the Sealy Term Loan.

Representations and Warranties:

Customary for this type of term loan and appropriate in the context of the proposed transaction.

Financial Covenants:

Identical to those in the New Senior Facility.

Affirmative Covenants:

Identical to those in the New Senior Facility.

Negative Covenants:

Identical to those in the New Senior Facility.

Right to Appoint Observer:

Sealy and MD Lender will have the right to appoint one observer to the MDC Board of Directors (the "Lender Observer").

Events of Default:

Customary for term loan of this nature and appropriate in the context of the proposed transaction including, but not limited to:

- 2) Non-payment of principal, interest, fees and expenses and other amounts due under the Sealy Term Loan;
- 5) If MDC shall hire or terminate its Chief Executive Officer or Chief Financial Officer (or persons performing similar functions regardless of title), without the prior consent of the Lender Observer (which consent may only be withheld in the exercise of the Lender Observer's good faith business judgment, applying the same standard as if such Lender Observer were subject to the fiduciary duties applicable to a disinterested director);
- 6) Cross-default to any of the (a) Assumed Supply Agreement (as defined in the Settlement Agreement), (b) the DIP Loan, (c) the New Senior Facility, and certain other material agreements; and
- 7) Sale of MDC or T.J.B. or other transaction resulting in change of control.

Indemnification:

MDC and T.J.B. agree to indemnify and hold Sealy and its respective shareholders, directors, officers, agents, subsidiaries, and affiliates harmless from and against any and all damages, losses, settlement payments, obligations, liabilities, claims, actions or causes of action, and reasonable costs and expenses incurred, suffered, sustained, or required to be paid by an indemnified party by reason of or resulting from the transactions contemplated hereby except to the extent resulting from the gross negligence or willful misconduct of the indemnified party. In all such litigation, or the preparation therefor, Sealy shall be entitled to select its own counsel and, in addition to the foregoing indemnity, the MDC and T.J.B. agree to pay promptly the reasonable fees and expenses of such counsel.

- (i) Expenses: *All reasonable and documented legal fees in connection with the closing of the transaction to be payable by MDC and T.J.B on the Closing Date.*

Loan Documentation:

This effectiveness of the Sealy Term Loan will also be subject to the execution and delivery of mutually acceptable loan documentation, which will contain

conditions precedent, representations and warranties, covenants, events of default and other provisions customary for loans of this nature, including, but not limited to those noted above.

Assignment:

Sealy shall be permitted to assign its interest in the Sealy Term Loan to affiliates.

Governing Law:

New York

Counsel to Sealy:

Womble Carlyle Sandridge & Rice PPLC

Exhibit E

Management Retention Program Term Sheet

The Management Retention Program consists of two plans, an Executive Retention Plan ("Executive Plan") and a Corporation Retention Plan ("Corporate Plan").

I. Participants and Benefits

A. Executive Plan

1)	Steve Newton	\$375,000
2)	Rick Frier	240,000

B. Corporate Plan

- 1) Mike Eppinger
- 2) Anne Pepper
- 3) Bob Gorney
- 4) Colin Harley
- 5) Kevin Etheridge
- 6) Chris Stabile
- 7) Ernie DeFrancesco
- 8) Justin Gannon
- 9) Jerry Smoker
- 10) Jen Nemecek
- 11) Rob Webber
- 12) Claude Cramer
- 13) Carol Strong-Robinson
- 14) Mike Malone
- 15) Mike Hall
- 16) Travis Gillespie

Aggregate Corporate Plan Benefits -- \$739,088

Total Executive Plan and Corporate Plan Benefits -- \$1,354,088

Payment Dates for Executive Plan and Corporate Plan

50% due on earlier of three months following Effective Date of Plan and June 30, 2003

50% due on June 30, 2003

Conditions to Payment: Executive Plan and Corporate Plan

Must be employed at time payment is due, unless terminated, other than for cause, or dies following a Change of Control, in which case the full amount of the retention benefit is due. All installments due after MD is liquidated or commences a plan of liquidation are also due and payable regardless of whether the plan participant is then employed.

**Mattress Discounters, Inc.
Term Sheet
For Plan of Reorganization Treatment
Of Claims of Senior Secured Lenders Under Tranche A**

DIP Condition:	The Company must utilize the entire \$6.0MM of availability under the DIP Credit Agreement prior to the remaining Tranche A debt being reinstated at the time the Company emerges from Chapter 11, and the post-confirmation repayment/treatment of the DIP will be in accordance with the terms of the Settlement Agreement and this Term Sheet.
Plan Treatment of Tranche A Claims	The remaining Tranche A claims will be allowed under the Plan and will continue as the senior secured claims consistent with the prepetition status of the Tranche A claims.
Plan of Treatment of other Claims	The treatment of classes other than the remaining Tranche A debt will be in accordance with the Settlement Agreement, dated as of November 7, 2002, unless otherwise consented to by the Senior Lenders in writing.
Consent Fee:	The Senior Lenders will be paid a consent fee on the date the Plan becomes effective equal to 1% of the principal balance outstanding on that date.
Deferred Fee:	The Senior Lenders will be paid a deferred fee on the outstanding principal amount at the time of payment of 0.5%, 1.0%, 1.5% and 2.0% on each of 6/30/03, 12/31/03, 6/30/04 and 12/30/04, respectively.
Loan Pricing:	Upon the effective date of the Plan, the interest rate on the loan will accrue interest at the greater of ABR + 300bps, or LIBOR + 400bps. Every six months, the rate will increase by 50bps, subject to a maximum total increase of 100bps.
Principal Payments:	MD will pay principal payments of \$250,000 at each quarter end beginning with the quarter ending 6/30/03. The previously scheduled principal payments for 12/02 and 3/03 will be added to the scheduled payments due on 9/04 and 12/04, respectively. In addition, a principal repayment in the amount of \$3.5 million plus 70% of the net proceeds of the sale of the Northern California and

San Diego markets will be made, if not paid prior to confirmation, no later than January 31, 2003. In addition, a principal repayment in the amount of \$1.25 million on account of the net proceeds of bulk sales of inventory will be made, if not paid prior to confirmation, no later than February 28, 2003. In addition, a principal repayment in the amount of \$1 million will be made, if not paid prior to confirmation, no later than April 30, 2003.

Cash Management System:

Cash management system will remain substantially similar to bankruptcy cash management system or on other terms reasonably acceptable to the lenders, provided that so long as no event of default has occurred and is continuing the Company shall be allowed to access funds without prior approval of the Lenders. New control agreement(s) will be entered into as Lenders may require.

Cash Sweep:

Commencing December 31, 2003 and on an annual basis thereafter, 50% of Excess Cash over and above a minimum cash balance of \$5.0 million shall be subject to a cash sweep for purposes of prepaying the outstanding Tranche A Bank Debt balance. For purposes of this paragraph, the minimum cash balance shall be calculated as the average weekly cash balance for the six weeks immediately prior to the relevant December 31 date. The cash sweep payment will be made within 30 days of the relevant December 31 date.

Proceeds from the Cash Sweep shall be applied against the earliest quarterly amortization requirements.

Term:

Extended one year to February 2005.

Financial Covenants:

The Company will maintain minimum EBITDA at the following levels:

Six Months Ending 9/30/03	\$3.85M
Nine Months Ending 12/31/03	\$4.85M
Twelve Months Ending 3/31/04	
6/30/04, 9/30/04 and 12/31/04	\$5.0M, 5.5M, \$6.0M and \$6.5M, respectively.

The Company will be subject to a Tranche A Debt to

trailing twelve-month EBITDA ratio test starting March 31, 2004. Tranche A Debt will be defined as total funded debt and letters of credit under Tranche A. The Company will be required to keep the ratio of Tranche A Debt / EBITDA at or below the levels set out below:

March 31, 2004	2.00
June 30, 2004	1.75
September 30, 2004	1.50
December 31, 2004	1.50

Other Covenants:

Usual and customary covenants for a facility of this type that will be reasonably acceptable to the Lenders.

Reporting:

The Company will provide the Senior Bank Group consolidated unaudited financial statements on a quarterly basis. The Company will supply the Senior Bank Group audited annual financial statements. On a monthly basis, the Company will provide the Senior Bank Group with a weekly sales report. The Company will provide such other information as the Lenders may reasonably request.

Guarantee:

Guarantee from Mattress Holding and TJB will continue as well as covenants/other requirements applicable to guarantee.

Releases:

Senior Lenders will be released of all manner of claims and liabilities under the Plan.

EXHIBIT B

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(GREENBELT DIVISION)**

In re:

Mattress Discounters Corporation
and T.J.B., Inc.,

Debtors.

Chapter 11

Case No. 02-22330 (DK)

(Jointly Administered)

NOTICE OF ENTRY OF CONFIRMATION ORDER

PLEASE TAKE NOTICE that on March 3, 2003, a hearing to consider confirmation of the First Amended Joint Chapter 11 Plan of Reorganization of Mattress Discounters Corporation and T.J.B., Inc. Proposed by the Debtors and the Official Committee of Unsecured Creditors dated January 8, 2003 (the "Plan") was held before the Honorable Duncan W. Kier in the United States Bankruptcy Court for the District of Maryland (Greenbelt Division) (the "Court") in Courtroom 3C located at the Federal Courthouse, 6500 Cherrywood Lane, Suite 300, Greenbelt, MD 20770.

PLEASE TAKE FURTHER NOTICE, that on March __, 2003, the Court entered an order confirming the Plan.

Dated: March __, 2003

ARENT FOX KINTNER PLOTKIN & KAHN, PLLC

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- and -

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